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ISSUE PRESENTATIONS BEFORE THE RULES COMMITTEE TASK FORCE ON THE BUDGET PROCESS

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CONTENTS

Presentation of: Page

Blum, James L., Assistant Director for Budget Analysis and William J. Beeman, Assistant Director for Fiscal Analysis, Congressional Budget Office: Economic and Technical Assumptions 2

Blum, James L., Assistant Director for Budget Analysis, Congressional Budget Office: Dynamics of the Federal Budget 15

Boster, Ronald S., Director of Legislation, Office of Congressman Willis D. Gradison: Budget and the Economy; Off-Budget Spending and Budgetary Treatment of Federal Credit Programs 33

Esposito, Sante, Counsel for Budget Law and Economic Matters, House Public Works Committee: The Impact of the Budget Process on Authorizing Committees; Intent and Evolution of the Congressional Budget Process 50

Fisher, Louis, Specialist in American National Government, Government Division, Congressional Research Service: The Authorization Process; The Appropriations Process 70

Hunter, Ken, Senior Associate Director, and Robert Sexton, Program Analysis Division, Government Accounting Office: Capital Investment Budgeting 92

Kogan, Richard, Budget Analyst, House Budget Committee: Coverage of the Budget 97

Meredith, Bruce, Staff Assistant, House Committee on Appropriations: Structure of the Budget Cycle and Budget Timetable Issues 115

Robinson, Peter D., Assistant Parliamentarian, Office of the Parliamentarian of the House of Representatives: Reconciliation and Other Enforcement Procedures 134

Ruhe, Shirley, Associate Director for Budget Operations and Process, House Budget Committee: Congressional Budget Control Mechanisms; Scorekeeping 147

Ruhe, Shirley, Associate Director for Budget Operations and Process, and Richard Kogan, Budget Analyst, House Budget Committee: Budget Control and Spending Controllability and Procedural Sanctions 168

Schick, Dr. Allen, professor, School of Public Affairs, University of Maryland: Purposes of the Congressional Budget Process 193

Unsworth, Allen, Minority Staff Chief Economist, House Budget Committee: Monetary Policy 209

Verdier, James M., Assistant Director for Tax Analysis, Congressional Budget Office: Tax Expenditures 216

ISSUE PRESENTATIONS BEFORE THE RULES COMMITTEE TASK FORCE ON THE BUDGET PROCESS

The Rules Committee task force on the Budget Process was established in March, 1982 to examine problems which have emerged in the budget process since the Congressional Budget Act was enacted in 1974 and to make recommendations for reform of the budget process to the Committee on Rules. The task force was comprised of six members of the Rules Committee and eighteen Members from other House committees directly involved in the budget process.

During the course of its two-year review of the congressional budget process, the task force conducted a number of informal work sessions in which Members discussed how the process has operated since its inception and how it could be improved. The foundation for these discussions was a series of presentations on various budget process issues made before the task force between May, 1982 and June, 1983. These issue presentations were made by budget specialists from the staffs of a number of House Committees and Member offices who served as resource aides to the task force.

In order to make the valuable information presented to the task force available to everyone interested in the budget process, the edited transcripts of those presentations and accompanying materials are compiled and printed in this Rules Committee print.

The Rules Committee greatly appreciates the contribution to the work of the task force made by each of the staff members whose presentation appears in this committee print.

STATEMENTS OF JAMES L. BLUM, ASSISTANT DIRECTOR FOR BUDGET ANALYSIS, AND WILLIAM J. BEEMAN, ASSISTANT DIRECTOR FOR FISCAL ANALYSIS, CONGRESSIONAL BUDGET OFFICE

Issues

(Presented by James Blum)

We might begin our discussion of economic and technical assumptions by stating the issues that we think the task force would want to consider in this area. The first is whether some provision should be made in the Budget Act to require the use of common economic and technical assumptions in preparing budget estimates by (a) the Congress and the President or (b) at least both Houses of the Congress. It seems to us that this is an issue that can be addressed in practical terms as opposed to just saying that we ought to have better and more accurate economic and technical assumptions.

The second issue we want to discuss is whether some provision should be made in the Budget Act to allow periodic updating of a budget resolution to take account of changed economic and technical assumptions.

Background

(Presented by James Blum)

By way of background, I want to make three points bearing on the relevance of these issues.

First of all, the bulk of the numbers in each year's budget must be estimated. The only numbers determined by congressional votes are those involving the new budget authority provided in annual appropriations. That new budget authority actually represents only 50 percent of the total budget authority in the annual budget. The remainder becomes available each year through permanent appropriations that do not require any additional congressional action. Much of this budget authority must be estimated for budget resolutions. All revenue and outlay figures are also estimates. All of these budget estimates are quite sensitive to economic and technical assumptions.

Table 1 provides an illustration of what happens over time when these economic and technical assumptions change. The table shows the differences between two sets of CBO baseline deficit projections, one made in July 1981 for the fiscal year 1982 budget resolution and the other made in February 1983 for the fiscal year 1984 budget resolution. In the space under the dashed line, an explanation is provided of the differences between the two projections of the budget deficit. The table shows how much of the change in the

budget deficit projections resulted from legislative actions, how much from changes in the economic outlook, and how much from changes in the technical assumptions underlying the estimates. The July 1981 estimates used baseline economic assumptions that were essentially those of the President, and which had been incorporated by the Congress in the 1982 budget resolution. Those assumptions proved to be unduly optimistic. That is why the numbers in the second line from the bottom—the line entitled "changed economic outlook"—are so large. The differences in that line are bigger than any of the differences ascribed to legislative action or to technical estimating changes. For example, in 1982 the deficit came out at $111 billion, or $80 billion more than projected in July 1981. The fact that the economy did not perform the way it was assumed to in the budget resolution accounted for $71 billion of the deficit overrun, while inaccurate technical assumptions accounted for only $12 billion of it. The tax reductions legislated by the Congress accounted for $38 billion, since the projection was made before they were enacted. Nondefense spending cuts helped to offset these increases in the deficit by $42 billion.

TABLE 1.—DIFFERENCES BETWEEN JULY 1981 AND FEBRUARY 1983 CBO BASELINE DEFICIT PROJECTIONS

[By fiscal year, in billions of dollars]

	1982	1983	1984	1985	1986
July 1981 baseline surplus or deficit (–)	–30	28	76	138	209
February 1983 baseline deficit	–111	–194	–197	–214	–231
Difference	–80	–212	–274	–353	–440
Differences Due to—					
Legislative actions	3	–34	–74	–128	–186
Tax reductions	–38	–63	–93	–121	–154
Defense spending increases	–1	–15	–27	–47	–65
Nondefense spending cuts	42	47	56	59	61
Effect of legislative action on interest costs	(1)	–3	–10	–19	–28
Changed economic outlook	–71	–152	–173	–196	–230
Technical estimating changes	–12	–26	–27	–28	–24

[1] Less than $500,000,000.

Source: Congressional Budget Office, "Baseline Budget Projections for Fiscal Years 1984–88" (February 1983).

The second background point I want to make is that the Congress and the Executive Branch typically employ different economic and technical assumptions for budget estimates. Moreover, the two Houses of Congress sometimes employ different assumptions for their budget resolutions and scorekeeping tabulations. The use of different economic and technical assumptions make it difficult to compare alternative budget plans and proposals, and can lead to procedural problems in scorekeeping.

Table 2 illustrates some of the estimating differences that CBO has had with recent Administration budgets. These are drawn from the annual CBO analyses of the President's budget, and show the relative size of the differences of economic and technical assumptions. Ignoring the pluses and minuses, and just looking at the magnitudes, you can see that the economic assumption differences are quite large in the first two years but they become rather small

in the last budget year. Likewise, the differences in technical assumptions were fairly large in the 1982 and 1983 budget years but much smaller in 1984. From our point of view, the Administration assumptions for the 1984 budget were more realistic than those for the 1982 and 1983 budgets.

TABLE 2.—CBO ESTIMATING DIFFERENCES WITH RECENT ADMINISTRATION BUDGETS

[By fiscal year, in billions of dollars]

	1982	1983	1984	1985	1986
President's fiscal year 1982 budget:					
Different economic assumptions:					
Revenues	4	−2	−2		
Outlays	13	26	36		
Different technical assumptions:					
Revenues	(1)	(1)	(1)		
Outlays	13	8	12		
President's fiscal year 1983 budget:					
Different economic assumptions:					
Revenues	−3	−1	6	−5	
Outlays	1	3	16	24	
Different technical assumptions:					
Revenues	4	−5	−13	−16	
Outlays	12	20	22	23	
President's fiscal year 1984 budget:					
Different economic assumptions:					
Revenues		(1)	2	3	−7
Outlays		−2	−9	−9	−11
Different technical assumptions:					
Revenues		9	3	1	−10
Outlays		−2	1	−4	−6

[1] Less than $500,000,000.

My third point is that the economic outlook and other factors affecting the budget estimates often change over time so that a budget resolution or the President's budget can become out of date very quickly. Table 3 compares the various budget estimates for 1983, the current fiscal year. The revised second resolution for fiscal year 1983 that the House will be voting on today estimates revenues at $60 billion less than the first resolution and outlays at $43 billion more. The expected deficit for 1983 has more than doubled. Similar changes have occurred in the Administration's budget estimates, shown in the lower part of Table 3.

TABLE 3.—BUDGET ESTIMATES FOR FISCAL YEAR 1983

[In billions of dollars]

	Revenues	Outlays	Deficit
Congressional budget resolutions:			
1st resolution (June 23, 1982)	665.9	769.8	103.9
2d resolution (Oct. 1, 1982)	665.9	769.8	103.9
Revised 2d resolution (June 1983) [1]	604.3	812.8	208.6
Absolute change, 1st to revised 2d	61.6	43.0	104.7
Change as percent of revised 2d	10.2	5.3	50.2
Administration budget estimates:			
Feb. 8, 1982	666.1	757.6	91.5
Apr. 9, 1982	665.1	767.0	101.9
July 30, 1982	646.5	761.5	115.0
Jan. 31, 1983	597.5	805.2	207.7

TABLE 3.—BUDGET ESTIMATES FOR FISCAL YEAR 1983—Continued

[In billions of dollars]

	Revenues	Outlays	Deficit
Apr. 12, 1983	598.3	808.5	210.2
Absolute change, Feburary 1982 to April 1983	67.8	50.9	118.7
Change as percent of April 1983	11.3	6.3	56.5

[1] Outlays and deficit include $5,350,000,000 contingency reserve for certain domestic spending programs not yet authorized.

The President is required by law to update his January budget estimates in April and July of each year. The same is true for the congressional budget resolution. Since only one budget resolution is now adopted each year, the budget estimates tend to become out of date months before a new resolution is adopted the following year. This serves to diminish the realism and credibility of the congressional budget process.

Economic Assumptions

(Presented by William Beeman)

I am going to discuss economic assumptions. These are much more controversial than the technical assumptions, and often they have a larger impact on the budget estimates. They are so controversial, in part, because of confusion as to what the economic assumptions are supposed to represent. The first reason for confusion is that many people look upon the Administration projections as measuring the success of policies. If inflation or unemployment is projected to go up (or productivity to decline), this is taken as somehow reflecting on those who are responsible for adopting the assumptions. As a result, very few budgets publish assumptions indicating an increase in inflation or unemployment. Almost every recent Administration from my experience has been optimistic in its economic assumptions. This year, fiscal year 1984, appears to be a notable exception. The Administration's economic assumptions are very similar to the CBO forecast, which tends to reflect the consensus view of forecasters.

The second reason for confusion, which is related to the first, is that it is not clear what we are trying to say with our economic assumptions. Should economic assumptions be a realistic projection, or should they set out economic goals? At times the President's assumptions are clearly goals, while others are described as forecasts. In recent years, Administrations have been very reluctant to call them forecasts. Instead, they refer to "scenarios"—apparently neither a goal nor a forecast. This is partly because the term "forecast" is not in very good repute these days. There have been lots of problems with forecasts. It is not surprising that in some years we see the President's economic assumptions described as goals and in other years as forecasts. Economic assumptions are likely to be described as forecasts when the Administration wants to show that its policies are having some success. At the same time, most policymakers would prefer not to call them forecasts in order to avoid future embarrassment if the estimates are wide of the mark.

Recently, there have been many proposals to approach this problem in an entirely different manner, by making a mechanical calculation of economic trends or average growth rates and using these as the economic assumptions. The purpose is to remove any political bias. In fact, as I have discovered, the calculation of trends and average growth rates does involve judgment, and so some bias could never be completely eliminated. However, if you could get an agreed-upon mechanical way of doing it, there would be some advantages. First, it would not require the frequent updating we now have to do with the economic assumptions. Second, it would provide a common basis for making comparisons. Lastly, over a longer period the overruns and shortfalls would balance out if you got your trends right. That is, in years when the economy was operating below the estimated trend, the deficit would be larger than projected, while in years when the economy was operating above the trend, the deficit would be smaller than projected.

A disadvantage of this procedure is that the Budget Committees would frequently be using very unrealistic budget estimates. You would know that the economic outcome was going to be quite different from the trend economic assumptions. I am not an expert on politics, but I question whether such mechanical economic assumptions would be politically feasible, particularly in years when the economy was operating above trend. In this situation, a realistic forecast would show the budget deficit in a more favorable light.

Whatever the approach used for making economic assumptions, the entire process would remain very complex. Table 4 is just a partial listing of some of the variables that one has to forecast in order to produce budget estimates. These variables should be consistent with the assumptions about aggregate growth rates and inflation, regardless of what method is used to produce forecasts. Table 4 is intended to show that it is not enough to get agreement on a forecast of overall inflation and unemployment; one has to do much more than that.

TABLE 4. MAJOR ECONOMIC VARIABLES REQUIRED FOR PREPARING BUDGET ESTIMATES

Prices and Wages:
- Average Hourly Earnings.
- Compensation Per Hour.
- Consumer Price Index—Urban.
- Consumer Price Index—Wage Earners.
- Food Prices Medical Service Prices.
- Alcoholic Beverage Prices.
- Wholesale Fuel and Related Products (petroleum, coal, coke) Prices.
- Refiners' Crude Oil Acquisition Costs (foreign and domestic).
- Petroleum Products, Refined, Prices.

GNP Deflator
- Deflator—State and Local Governments.
- Deflator—Business Fixed Investment (nonresidential structures and producers durable equipment).
- Deflator—Residential Construction.
- Deflator—Government Purchases (defense and nondefense).

GNP
- Nominal GNP.
- Real GNP.

Financial
- Treasury Bill Rates and Rates of Longer Maturities.
- Moodies' AAA Rate.

Labor Markets
- Labor force.
- Employment.
- Unemployment Rate, global.
- Insured Unemployment.

Incomes
- Wages and Salaries.
- Corporate Profits, taxable (domestic and foreign).
- Federal Reserve Profits.
- Proprietors Income (farm and nonfarm).
- Rental Income.
- Dividends.
- Interest.

The Budget Committees have not always used CBO's economic assumptions. In the early years of the new budget process, the Senate tended to use CBO's assumptions and the House did not, but recently both have used CBO's figures with, perhaps, some updating. Table 5 compares economic assumptions prepared in the beginning of 1981. This was a time when all forecasts were particularly bad, not so much for calendar 1981 as for calendar 1982. CBO's forecasts may have been better than most, but nevertheless the errors in economic assumptions led to very large errors in budget estimates for fiscal 1982. The problem is that what an economist would regard as a small error in forecasting can show up as an enormous error in the budget estimates. For economists, a difference of one percentage point between the forecast economic growth rate and the actual outcome is regarded as state-of-the-art. When applied to the budget estimate, however, such a difference will produce an error of perhaps $40 billion in the size of the projected deficit. After all, the deficit is the difference between two very large magnitudes. You can have small misses in total outlays and revenues in percentage terms but be way off on the total deficit.

You can see from Table 5 how great the difference was between the forecast and the final outcome in 1981. The Administration started out by forecasting 11.1 percent for Treasury bill rates that year. By the time the first budget resolution for fiscal 1982 got to conference, the Budget Committees agreed to raise it to 13.5 percent because monetary policy was turning out to be much tighter than had been anticipated. CBO's forecast had been higher than the Administration's, but it hadn't anticipated the high rates realized. The result of the tight monetary policy in 1981 was that in calendar year 1982 real GNP declined by 1.7 percent. None of the forecasts had anticipated any decline in real output. Quite the contrary, they had all expected quite a substantial increase by varying percentages. For most forecasts, this was probably a record error. Usually we do better. But under the best of circumstances, when

trying to forecast over a period of a couple of years, there are likely to be significant misses.

TABLE 5.—COMPARISON OF ECONOMIC ASSUMPTIONS 1ST RESOLUTION FOR FISCAL YEAR 1982

	Calendar year—	
	1981	1982
Real GNP (percent change):		
Administration	1.1	4.2
CBO	1.4	2.9
HBC	2.4	2.3
SBC	1.1	4.2
Conference	2.0	4.2
Actual	1.9	−1.7
Nominal GNP (percent change):		
Administration	11.1	12.8
CBO	11.9	12.3
HBC	12.6	12.3
SBC	11.1	12.8
Conference	12.0	13.0
Actual	11.6	4.1
Unemployment rate (percent):		
Administration	7.8	7.2
CBO	7.7	7.6
HBC	7.4	7.3
SBC	7.8	7.2
Conference	7.5	7.2
Actual	7.6	9.7
Consumer Price Index (percent change):		
Administration	11.1	8.3
CBO	11.3	9.5
HBC	11.1	10.4
SBC	11.1	8.3
Conference	11.1	8.3
Actual	10.3	6.2
3-mo. Treasury bill rate (percent):		
Administration	11.1	8.9
CBO	12.7	13.8
HBC	13.8	12.0
SBC	13.5	12.0
Conference	13.5	10.5
Actual	14.0	10.6

Taking the numbers for calendar year 1982, CBO had anticipated that the economy would be weak and forecast only a 2.9-percent increase in real GNP, as against the Administrator's 4.2 percent. The House Budget Committee also thought growth would be weak and set its assumption at 2.3 percent. By the time the Committees went to conference, in the summer of 1981, there was more optimism and the assumption was raised to 4.2 percent.

Some people have referred to the Administration forecast as "the rosy scenario." This is not because of the assumed growth rate or the assumed rate of inflation were outrageous in themselves; it was the combination of rapid growth and rapidly declining inflation that was considered overly optimistic. As it turned out, inflation did decline, but mainly because we had a very deep recession that caused very weak growth in nominal GNP.

I think most technicians would agree that it would be very desirable if there were a mechanism for producing agreement on eco-

nomic assumptions. There has, in fact, been a movement within the Congress to bring that about. The staffs of the House and Senate Budget Committees have, on a regular basis, gotten together and tried to resolve differences in economic assumptions. This year, by the time the budget resolution got to conference, the staffs had reached agreement on assumptions. Sometimes they haven't been able to do this. I recall once that in conference the conferees voted to split the difference between the House and Senate assumptions.

When I speak of common economic assumptions, I don't mean necessarily having only one set of assumptions. In fact, it is quite instructive to have alternative economic assumptions to give you an idea of the sensitivity of the budget to differences in economic outcomes. In the CBO reports, you will often find that besides our baseline forecast or projection, we also have high-growth and low-growth paths just to show how these would affect the budget. Such projections can show how much of the deficit is structural and how much is due to weakness in the economy.

Some committee staff members take the view that uniformity in economic assumptions might make it more difficult to reach agreement on resolutions, because in arriving at a budget resolution the Committees need some flexibility. The conferences have frequently made adjustments; in doing so they have changed the GNP assumption by $10 billion more or less, which is usually within the range of forecast errors. That is, small changes in some of the underlying assumptions, which are well within the ball park of reasonable estimates make it somewhat easier to reach an accommodation.

Personally, I think that one improvement in economic assumptions could be brought about by a closer coordination or exchange of information with the Federal Reserve as to what their plans are. As Table 5 shows, a very large part of the error in forecasts for 1982 was the result of not knowing just how tight monetary policy was going to get. It turned out to be much tighter than any of us thought. Some of us had seen the likelihood of a recession if monetary policy was tight, but few thought monetary policy would be so tight and the recession so deep. We all thought that, as soon as the economy started to decline, monetary policy would ease very quickly. In fact, it did not.

The goal of the Fed was to reduce inflation, which they have been successful in doing, but it was not clear just how far they would go. At the present moment, we have another puzzle with Fed policy—that is, its monetary targets and the extent to which it will deviate from those targets. The traditional forecast begins with some particular monetary policy assumption, but this is almost impossible now because we do not know precisely what policy the Fed is following. In my view, we could improve the accuracy of the forecasts and perhaps raise the level of discussion about economic assumptions if the Federal Reserve were involved in some way in the process of preparing the assumptions.

One suggestion that has been made is that the Fed announced a target for nominal GNP, and that this target would be incorporated in the economic assumptions for the budget. This would improve coordination. One possible drawback to this is that, if the Fed tar-

geted GNP rather than some monetary growth rate, there would be little role for policy in stabilizing the economy. This is because, if successful, monetary policy would largely offset the macroeconomic effects of fiscal policy in the short run. There would still be important fiscal policy effects on long-run economic growth and productivity, and perhaps on long-run rates of inflation, but not on short-run stabilization.

Technical Assumptions

(Presented by James Blum)

I would like to add a little more on the topic of technical assumptions. Our budget estimates often differ from those of the Administration because our technical assumptions are not the same. These differences tend to be in areas such as defense spending, farm price supports, and entitlement-type programs—particularly Social Security and other income transfers—and offshore oil receipts, as well as some of the net interest calculations, as shown in Table 6. Much of this derives from the fact that assumptions have to be made about how government spending will be affected by demographic changes, behavioral responses of people to government programs, changes in those programs, and conditions in the farm sector or elsewhere in the economy.

TABLE 6.—CBO TECHNICAL ESTIMATING DIFFERENCES WITH RECENT ADMINISTRATION BUDGETS FOR OUTLAYS

[By fiscal year, in billions of dollars]

	1982	1983	1984	1985	1986
President's fiscal year 1982 budget:					
Defense programs	5.1	2.1	7.3		
Farm price supports	.8	1.0	.7		
Social Security and other income security programs	1.8	2.6	2.7		
OCS offsetting receipts	−.3	−1.5	−2.9		
Other programs	5.3	3.5	4.2		
Total	12.8	7.6	12.0		
President's fiscal year 1983 budget:					
Defense programs	3.3	1.8	1.6	1.5	
Farm price supports	5.1	5.6	2.7	2.4	
Social Security and other income security programs	1.4	1.7	1.8	.6	
Net interest	.9	3.7	8.2	13.5	
OCS offsetting receipts	.9	5.2	4.8	3.2	
Other programs	.6	1.9	3.0	1.8	
Total	12.2	19.9	22.1	23.0	
President's fiscal year 1984 budget:					
Defense programs		−.5	−.6	−2.9	−1.4
Farm price supports		(1)	.8	.8	2.0
Social Security and other income security programs		−4.5	−.9	−1.4	−2.3
Net interest		−.6	−1.1	1.2	−2.6
OCS offsetting receipts		1.4	2.7	1.6	−1.8
Other programs		2.1	.1	−.8	.4
Total		−2.1	1.0	−3.9	−5.7

[1] Less than $50,000,000.

We do not look to our economists to give us forecasts of individual sectors, yet these can have a tremendous impact on the budget as the case of farm price supports shows. Accordingly, there can be many differences among estimators because of different judgments, different methods of making estimates, different economic models, different interpretations of historical trends, and the like.

Another frequent cause of differences in estimates is the timing of the estimates. The more time we have, the more accurate our estimates can be. CBO usually has an advantage over the Administration because we make our estimates on the basis of a few more months of information—whether it is the latest farm crop reports, the latest offshore oil sales, or whatever.

Some Possible Options for Common Economic Assumptions

(Presented by William Beeman)

We are going to discuss some options for handling the issues related to economic and technical assumptions that were raised at the beginning of our discussion.

As indicated earlier, the Budget Committees have been using more than one set of economic assumptions in their work on the budget resolution. At times they use the Administration's economic assumptions, other times they use CBO's assumptions, and sometimes the staffs have come up with their own economic assumptions.

Most people, however, believe that it would be desirable to have a common set of economic assumptions. The committee staffs have, as far as they felt possible, moved in that direction. This year they made an effort to have common economic assumptions at least for the conference.

CBO has, in some respects, also moved in that direction by the way it prepares its forecasts. Our projections tend to be close to the consensus among economists at the time they are made. Using consensus forecasts reduces the amount of debate about which assumptions to choose. Moreover, CBO has its economic forecasts and projections reviewed by a panel of economic advisers, a very distinguished group of economists from the academic and business worlds. They provide criticism that is used in preparing the final product.

Nevertheless, many people feel that additional measures are needed to ensure uniform economic assumptions. We will review here four options for having the President's budget and the first budget resolution based on the same economic assumptions.

One option is to create a board composed of representatives from the executive and legislative branches and the Federal Reserve, with the power to determine economic assumptions that would be adopted by both the Administration and the Congress.

A second option would be to have the President and the Budget Committees each employ two sets of economic assumptions, one set agreed to by all beforehand, the other consisting of assumptions chosen by each institution. The common economic assumptions would make it easier to compare programs. I think that would be very desirable. At the same time, it would permit the various par-

ties to have assumptions that they feel are consistent with the policies they are proposing. At present, CBO does provide alternative budget proposals based on a common set of economic assumptions so that the programs can be compared, but they are not necessarily assumptions that everyone would agree with.

A third option would be to use the Administration's economic assumptions.

A fourth option would be for the Administration to set out some realistic goals for the economy, which the Congress would adopt or perhaps modify, and which would then become the official objectives for the monetary and the fiscal policy authorities. They would be the economic assumptions underlying the budget.

This suggests a different approach, that the economic assumptions might be thought of as achievable goals rather than forecasts. The problem is that it would be very difficult to get all the parties to agree on what are appropriate goals.

PROBLEMS

There is a lot of controversy with economic goals. Everybody would agree, of course, that you want to have the unemployment rate down as low as possible, but the trouble is that such goals may not be consistent; generally you can't have unemployment decline very rapidly to low levels without getting some acceleration in inflation.

A second problem with all of the options is that any group set up to produce common economic assumptions in some formal way would have to meet frequently or it would encounter a problem of outdated projections. The lapse of time required for the Administration to prepare its economic assumptions, CBO to prepare its economic assumptions, and the Budget Committees to begin to mark up the budget is usually several months. The committee staffs often find it necessary to do some updating of the economic assumptions just before (or just after) markup; CBO provides mechanical assistance in this process. This usually involves inserting the actual first-quarter numbers into the forecast, or even producing a new forecast when economic circumstances have changed dramatically.

For example, in 1979 the January projections by the Administration and CBO did not—and could not—foresee the consequences of the overthrow of the Shah of Iran. That meant that our economic assumptions were very quickly outdated and we had to produce a new set with higher oil prices. Within a week we prepared a whole new set of assumptions and budget estimates. It might not have been possible for an independent board or a large group to agree within a week as to the probable impact of those events.

Another problem with establishing a common set of economic assumptions is that most economists and certainly most administrations like to think that there should be a difference between the baseline economic assumptions and the post-policy economic assumptions. They would like to show that the policies to be undertaken will have some favorable effect on the economy. To get a common set of economic assumptions, it would be necessary to get

people to agree as to what the economic impact of the policies would be.

There also would be a lot of political pressure on any group trying to produce a common set of assumptions—pressure to be optimistic and to permit inconsistencies.

Finally, I should mention that in order to produce budget estimates, we have to project quite a large number of variables. Table 4 provides a list of some of them. It wouldn't suffice to get agreement, say, on major variables such as the rates of unemployment and inflation. There would also have to be agreement on the components. For example, an obvious point of disagreement is whether the income generated by economic growth will show up in wages and salaries or in profits. Theses two components of the tax base have quite different marginal tax rates and produce different amounts of revenue, so that we could agree on major variables and yet our estimates of revenue would be different depending on our assumptions about the components.

At present, CBO does produce a common set of economic and technical assumptions, and compares Administration and Congressional proposals on the basis of that common set of assumptions. But this set of assumptions is not agreed to by all the parties concerned.

ANOTHER APPROACH

Rather than having a common set of assumptions agreed to by the Administration and the Congress, another approach would be to have the two Budget Committees agree to common economic assumptions. I am not clear how that would be achieved, but I suppose one could imagine a meeting of the Budget Committees before markup begins, to agree on a set of economic assumptions proposed by the staffs.

That has been done sometimes in the past on an informal basis, after conversations between the two chairmen. This year both the House and the Senate Committees, for markup purposes, agreed to use the CBO forecast and economic assumptions. I can't attest that such agreement would always be easy to achieve; it might not, particularly if the policies being proposed are very different. If the House and Senate propose substantially different policies, the feeling might be that there should not be a single set of economic assumptions.

Before 1981, when both Houses had Democratic majorities, the Senate Budget Committee tended to use the CBO economic assumptions but the House Budget Committee rarely used them. Often the staffs of the House Budget Committee used their own economic assumptions. There would be nothing to prevent the Budget Committees from agreeing to use the same assumptions. However, they frequently operate on a different time schedule. When they do, the committee having a later markup would have more recent information and would probably want to incorporate it into their assumptions. There is also the other problem that I mentioned—that if their policies are different they might feel they need to have different economic assumptions.

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Finally, many people feel that different economic assumptions are not undesirable, at least before going to conference, if there is sufficient flexibility to achieve a budget resolution. This involves a political question—whether it is preferable to have some flexibility on economic assumptions (within a reasonable range) rather than to risk not getting a resolution in the time available. In practice, the Budget Committees have sometimes used slightly different assumptions but moved to common assumptions as they approached the conference stage.

In recent years, a uniform set of economic assumptions has been adopted for conference. The basic point is that the Congress has moved a long way in the direction of common economic assumptions on an informal basis in meetings between the chairmen of the committees and the staffs of the committees.

Budget Resolution Revisions

(Presented by James Blum)

I would like to address the problem of revising the budget resolution figures periodically in line with changes in economic and technical assumptions. These can change fairly quickly, and by very large amounts, as I discussed earlier. The difficulty in having only one budget resolution in a year is that the economic and technical assumptions underlying it can become out of date. This raises problems for scorekeeping, and for the credibility of the budget numbers as a whole.

The practice has been, essentially, that CBO always uses the assumptions of the most recently adopted budget resolution for scorekeeping purposes unless directed otherwise by both Budget Committees. We don't feel that we lack guidance in generating the numbers for scorekeeping purposes. The two Budget Committees, however, have recently adopted different practices. For example, until the revised resolution for 1983 was adopted, the Senate was keeping score for the current fiscal year against all of the economic and techncial assumptions of the resolution approved a year ago, while the House Budget Committee adopted an updated set of scorwhile the House Budget Committee adopted an updated set of scorekeeping assumptions early this year based on the assumptions

This raises a question whether there should be some automatic updating of the budget resolution periodically or at different points in time, for changed economic and technical assumptions.

For example, the House in its resolution this year included a provision in the title, in the general provisions, that went in the direction of saying that, in the event an automatic second resolution went into effect, the House Budget Committee would have the option of reporting out a second resolution that would update for economic and technical assumptions only. I believe that still would require a vote by the House and would be like adopting a whole new resolution.

Another possibility would be to have an automatic certification process so that, with both Budget Committees acting jointly, the budget resolution figures could be revised for changed economic and technical assumptions without requiring votes by both Houses.

The scorekeeping numbers would be revised in the same manner. This could be done, for example, in October or in February. It would have the advantage of keeping all the numbers up to date, and would avoid the problem of doing the scorekeeping tabulations with different assumptions than were used for the budget resolution.

This approach could be based on hearings that the Budget Committees would hold periodically. The CBO could be directed to update its forecasts periodically and provide new estimates to the Budget Committees, which we do now in any event.

It might pose problems, of course. The first one that occurs to us is that it might tempt the Budget Committees to use unrealistic assumptions for the first budget resolution as a way of getting agreement, and then switch later to a more realistic set of assumptions. And if it was done on an automatic basis, without allowing a vote, the members would not have a chance to revise their policy prescriptions in the light of changed economic or other factors.

STATEMENT OF JAMES L. BLUM, ASSISTANT DIRECTOR FOR BUDGET ANALYSIS, CONGRESSIONAL BUDGET OFFICE

My focus will be on the dynamics of the federal budget and its implications for the budget process. My major thesis is that the budget numbers have been driving the budget process for the last several years and will continue to be the major influence on procedural changes in the future. By this I mean that the changing structure of the budget itself has been the principal force causing changes in the way the Congress has dealt with it.

The discussion this morning is particularly timely. The Congressional Budget Office has just released some new estimates on the budget outlook, and the Senate is debating a proposed constitutional amendment requiring a balanced budget.

I am going to begin by making five principal assertions about the budget outlook, and then discuss each in turn. I will conclude with some thoughts about the implications of this for the budget process. My five assertions are as follows:

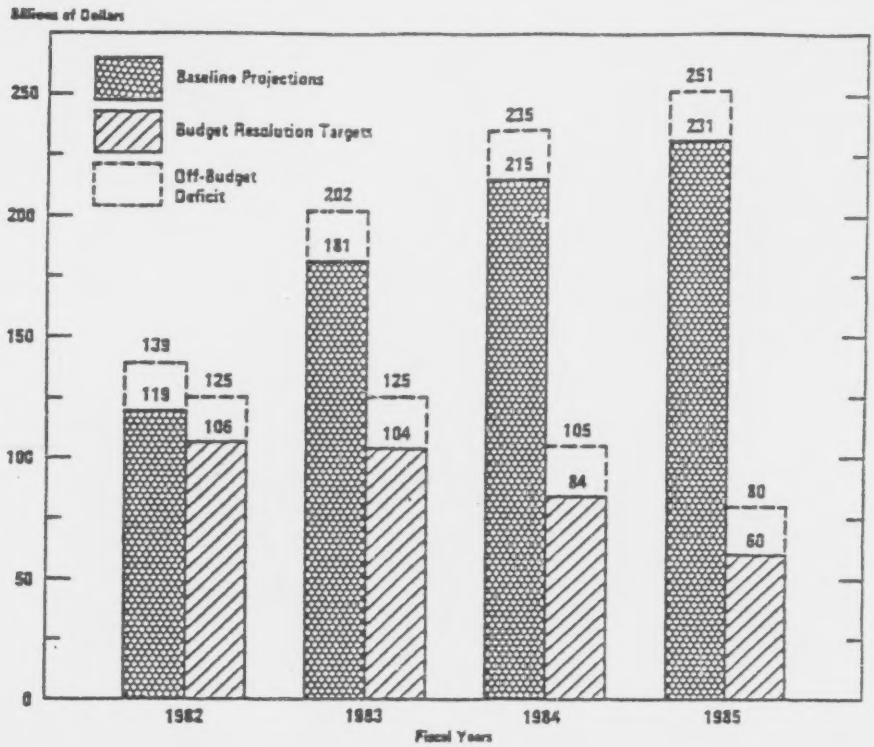
1. The outlook for the foreseeable future is for continuing large budget deficits.
2. The general prescription favored by the Administration and the Congress is to achieve budget balance by limiting the growth in spending.
3. Major reductions in future spending levels will be difficult to accomplish given the composition of the federal budget.
4. Major reductions in federal spending cannot be accomplished solely throught the annual appropriations process.
5. Actual spending can deviate from estimated levels by large amounts in any one year because of factors outside the control of the Congress or the President.

CONTINUING LARGE BUDGET DEFICITS

Beginning with the first of these assertions, the outlook for the foreseeable future is that we will continue to have large budget deficits. Our baseline budget projections that were used in putting together the first budget resolution for fiscal year 1983 show defi-

cits growing to well over $200 billion in 1985 (see Figure 1). These baseline projections are designed to show what would happen to the budget if present programs were continued without major changes. They are not forecasts of actual revenues and expenditures. They do, however, indicate the magnitude of the budget deficit problem facing the Congress. Figure 1 also shows the budget targets of the first budget resolution for fiscal year 1983. That resolution contemplated very large tax increases and spending reductions, which would result in reducing the deficits to around $60 billion by 1985. If we include off-budget spending, the deficit would be closer to $80 billion under the resolution.

Figure 1.
Budget Deficits



Since these projections were made, CBO has revised them to take account of recent economic developments. The new estimates, given in Table 1, show how only marginal changes in the economic outlook can have a very pronounced effect on the budget estimates. The current economic outlook is for a delay in the economic recovery that was assumed to begin in 1983. This is bad news. On the other hand, the inflation outlook has improved more than was anticipated earlier, which is both good and bad for the budget because it lowers interest rates but also reduced revenues.

Lower real growth in the economy together with lower inflation deal a double blow to government revenues, as the second line in Table 1 demonstrates. If we adjust the economic assumptions for 1983–1985 to take account of what has actually transpired in the last several months, we get a reduction in revenue increases by roughly $25 billion in 1983, $35 billion in 1984, and $40 billion in 1985. Part of this is due to the fact that 1982 revenues are also coming in lower than contemplated, closer to $620 billion than to the $628 billion that was assumed for the first budget resolution.

These revised economic assumptions have a smaller effect on outlays. Projected outlays show a net increase, primarily because of the prospect for somewhat higher interest rates, although interest rates are clearly the most uncertain part of any economic forecast at this point. It is possible that interest rates could come down very sharply, as they have in the past in recessionary periods; in fact, it is somewhat of a mystery why they are at such high levels today.

Table 1 thus indicates the sensitivity of the budget numbers to changes in economic assumptions. In addition, it suggests that other facts could also drive the budget deficit figures up. The other factors are included in what we call technical reestimates of Administration spending figures. We have some difference with the Administration spending estimates that were used for the first budget resolution—for example, as to how fast Defense would spend in the outyears. We were also skeptical about the estimates of receipts from accelerating the leasing of off-shore oil lands, among others. In preparing the first resolution, the Congress used Treasury estimates for revenues and Administration estimates for defense spending and off-shore oil revenues. We feel that reestimating those figures would increase the projected deficit. We don't yet have new technical reestimates to provide the Congress. We are waiting for the Administration's mid-session review to be released, and after that we will conduct a comprehensive review of where the spending numbers are going.

TABLE 1.—POSSIBLE RISKS TO BUDGET DEFICITS FOR FISCAL YEARS 1983–85

[in billions of dollars]

	1983	1984	1985
Budget Resolution Deficit Targets	104	84	60
Possible changes in economic outlook:			
Lower revenues because of lower growth and inflation	25	35	40
Higher outlays because of higher unemployment and interest rates, partially offset by lower inflation	5	12	17
Possible technical reestimates:			
Lower revenues	4	10	20
Higher outlays:			
Lower OCS receipts	4	4	3
Faster defense spending	2	2	2
Higher interest costs	2	3	5
Possible budget deficits (range)	140–155	140–155	140–155

SPENDING CUTS FAVORED

I would now like to move to my second point, which is that the general prescription favored by the Administration and the Congress is to achieve budget balance through spending cuts rather than major increases in taxes. Table 2 shows revenue increases above the baseline going from $21 billion in 1983 to $41 billion in 1985. But as the final column indicates, the total of these revenue increases over the three years amounts to only a quarter of the deficit reduction assumed in the first budget resolution. The remainder is to come from reduced spending, as detailed in the table. There is to be some decrease in the growth of defense spending, although this may be strongly opposed by the Administration. Holding Federal pay raises to 4 percent, rather than 7 to 8 percent as in the baseline, would produce significant savings. The resolution also calls for holding nondefense discretionary appropriations at the 1982 level, which would keep them constant in nominal terms but would mean cutting them in real terms. The baseline, by comparison, would keep them constant in real terms—that is, allow nondefense discretionary spending to keep pace with inflation. Entitlement savings would add another 8.2 percent to the deficit reduction.

Over two-fifths of the spending reductions assumed in the first resolution do not require specific legislation by the Congress. Management savings, 12.3 percent, are to be achieved through changes in administrative procedures such as an acceleration in the sales of off-shore oil leases, improved debt collection measures, sales of surplus federal property, and reduction of waste, fraud, and abuse. You would also get significant interest cost savings by bringing the deficit down, for two reasons. First, the resolution assumed that if the deficit started declining it would cause interest rates to come down more than they otherwise would. Second, with a lower deficit your debt service costs would be reduced. These are the last two lines under the spending reductions in Table 2.

TABLE 2.—UNIFIED BUDGET DEFICIT REDUCTION MEASURES ASSUMED BY 1ST BUDGET RESOLUTION FOR FISCAL YEAR 1983 (S. CON. RES. 92)

[By fiscal year, in billions of dollars]

	1983	1984	1985	Total 1983–85	Percent
Revenue Increases	20.9	36.0	41.4	98.3	26.0
Spending reductions:					
Defense (except pay and entitlements)	7.8	8.3	10.3	26.4	7.0
Federal pay raises	5.1	8.9	12.1	26.1	6.9
Nondefense discretionary programs	5.7	10.2	18.8	34.7	9.2
Entitlement savings	6.9	10.7	13.6	31.2	8.2
Management savings	13.7	17.1	15.8	46.6	12.3
User fees and other program savings	2.2	2.7	2.9	7.8	2.1
Lower interest rates	8.0	19.1	27.8	54.9	14.5
Debt service savings	6.5	17.7	28.6	52.8	13.9
Subtotal	55.9	94.7	129.6	280.2	74.0
Total Deficit Reduction	76.8	130.7	171.0	378.5	100.0

Note.—House Budget Committee assumptions. Detail may not add to totals due to rounding.

Now, in order for all of this to happen, the Congress first has to carry through the reductions in appropriations that are assumed in the first resolution. Then the Administration has to achieve the assumed savings in management. And finally, interest rates have got to come down.

BALANCED BUDGET AMENDMENT

In this connection, I should like to discuss the balanced budget amendment, which is being debated in the Senate this week. The point I want to make is that the balanced budget amendment should be viewed primarily as a spending reduction proposal. I have illustrated this in Table 3.

TABLE 3.—COMPARISON OF BALANCED BUDGET AMENDMENT GUIDEPOSTS WITH BUDGET RESOLUTION TARGETS AND BASELINE PROJECTIONS

[By fiscal year, in billions of dollars]

	1982	1983	1984	1985
Revenues:				
Baseline projections	623.0	645.0	702.0	780.0
S. Con. Res. 92 targets	628.4	665.9	738.0	821.4
H.J. Res. 350 guideposts [1]		700.0	745.5	835.7
Outlays:				
Baseline projections [2]	762.1	847.1	937.3	1,031.2
S. Con. Res. 92 targets [2]	753.9	791.2	842.6	901.6
H.J.Res. 350 guideposts [1]		665.9	738.0	821.4
Deficit:				
Baseline projections [2]	139.1	202.1	235.3	251.2
S. Con. Res. 92 targets [2]	125.5	125.3	104.6	80.2
H.J. Res. 350 guideposts [1]		0	0	0

[1] Assume H.J. Res. 350 guideposts beginning in 1983. These guideposts are: 1. Total budgeted outlays should not exceed total budgeted receipts. 2. Total receipts should not increase at a faster rate than the national income (e.g., GNP). 3. Total outlays, accordingly, should not increase at a faster rate than the national income. 4. Actual outlays shall not exceed budgeted outlays. 5. Off-budget outlays must be included in the calculation of total outlays.

[2] Includes off-budget outlays of $19,800,000,000 in 1982, $21,408,000,000 in 1983, $20,700,000,000 in 1984, and $20,200,000,000 in 1985.

As embodied in H.J. Res. 350, the balanced budget amendment would require a very sharp reduction in the level of Federal spending. In essence, it is designed to reduce the relative size of the Federal sector in the economy. This can be seen in the table by comparing the second line of outlays with the third line—that is, comparing the outlay targets of S. Con. Res. 92 (the first budget resolution) with the outlay guideposts of H.J. Res. 350 (the balanced budget amendment). These outlay guideposts, it will be seen, are identical with the revenue targets of the first budget resolution. It is true that the revenue guideposts under the constitutional amendment would allow taxes to be raised even higher than contemplated by the first budget resolution, but I have assumed that the Congress would stick to the revenue targets of the resolution. Under the proposed amendment, total budget outlays could not exceed total budgeted receipts unless three-fifths of the Congress approved the deficit. Of course, a majority of both houses could agree to an increase in receipts, up to the level permitted by the amendment.

In short, to get to a balanced budget, we would have to have reductions of total outlays—including off-budget outlays—on the order of magnitude of $125 billion in 1983 down to $80 billion in

1985. Under the reestimates of the deficits that we expect to be making shortly, and which I have already discussed, the situation by 1985 would be much worse. We would be talking about deficits of $150 billion or more.

Of course, the balanced budget amendment would not take effect right away. The earliest it could take effect would be 1985, possibly 1987, and one may ask what the situation would be then. Our projections, extending the first budget resolution, would still show a deficit of more than $70 billion. Under our reestimates, in fact, it would probably be closer to $150 billion. This obviously poses a problem of balancing the budget in the first year the amendment takes effect.

If the amendment became effective at a time when the budget was already in balance, I am not sure what the effect would be. It would prevent the government from using fiscal policy as a countercyclical tool, since spending would have to be cut to fit revenues and there would be no way of budgeting for a deficit in time of recession. It would mean putting more reliance on monetary policy as a countercyclical instrument.

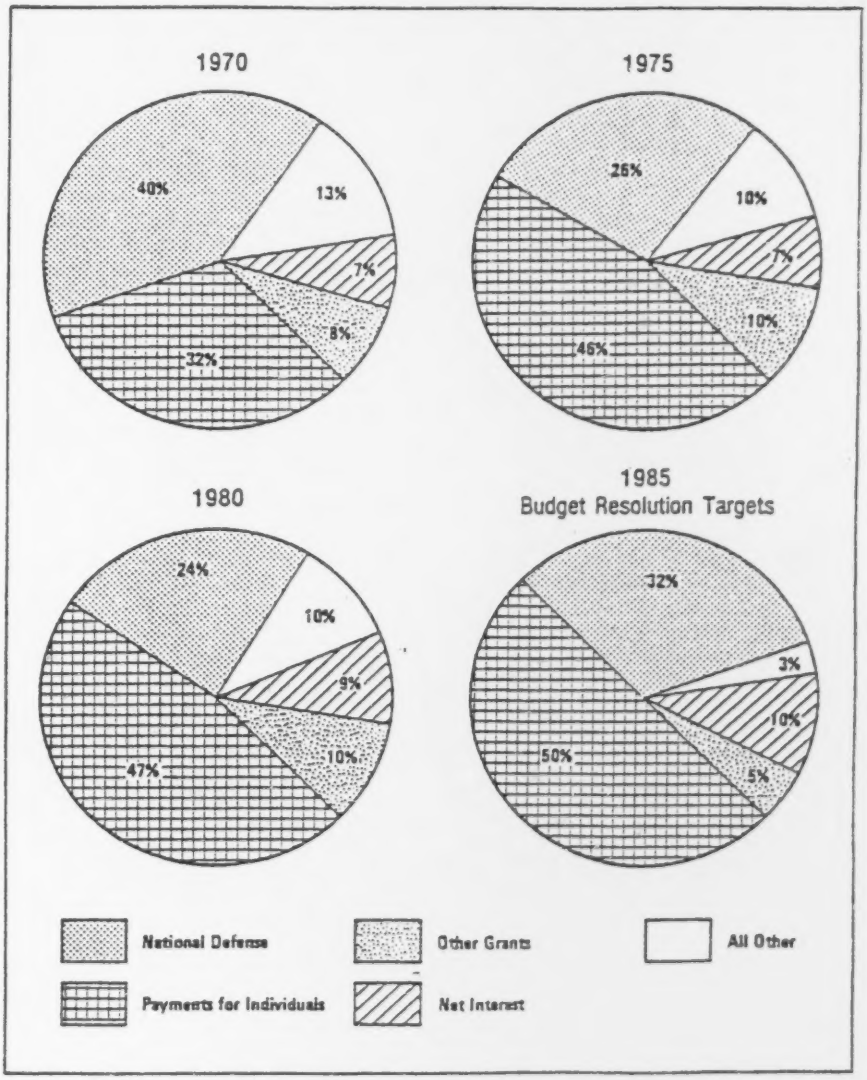
The big problem would be getting to a balanced budget. Under present conditions, if the amendment were passed tomorrow, it would put heavy pressure on the Budget Committees and the Congress to start now and get onto a path that would lead to a balanced budget by the time the amendment took effect. In addition to the deficit reduction assumed in the first resolution, we would be in much the same position next year as we are in now—contemplating still more major deficit reduction proposals, whether these took the form of tax increases or further spending reductions.

SPENDING REDUCTIONS WILL BE DIFFICULT TO ACCOMPLISH

Let me now turn to the next item on my agenda, which is to make the point that major reductions in future spending levels will be very difficult to accomplish given the composition of the budget on the spending side.

Figure 2 shows the relative shares of major categories of expenditures as they have been evolving since 1970, and what they would be in 1985 under the first budget resolution. You can see that the share allocated to national defense has been shrinking since 1970, from 40 percent down to 26 percent in 1975 and 24 percent in 1980. Now it is turning around sharply, and by 1985 it will rebound to almost a third of total budget outlays.

Figure 2.
The Composition of Federal Spending (Unified Budget)



Benefit payments to indivduals were a very large segment of the budget even in 1970. These consist of Social Security payments and other payments made directly to individuals, and outlays for the provision of services to individuals such as Medicare and Medicaid and housing assistance. Benefit payments grew from 32 percent of the budget in 1970 to 46 percent in 1975 and 47 percent in 1980. By 1985, they will reach 50 percent under the first budget resolution. Most of the growth between 1981 and 1985 is attributable to outlays for Social Security and Medicare.

Interest costs have been growing gradually over this period, from about 7 percent in 1970 to about 10 percent in 1985.

Figure 3 is another way of looking at the dates in Figure 2. It shows the relative growth of outlays for defense, benefit payments for individuals, net interest, and all other programs over time. It demonstrates how national defense and payments for individuals are consuming ever larger parts of the budget.

Figure 3.
Federal Budget Outlays

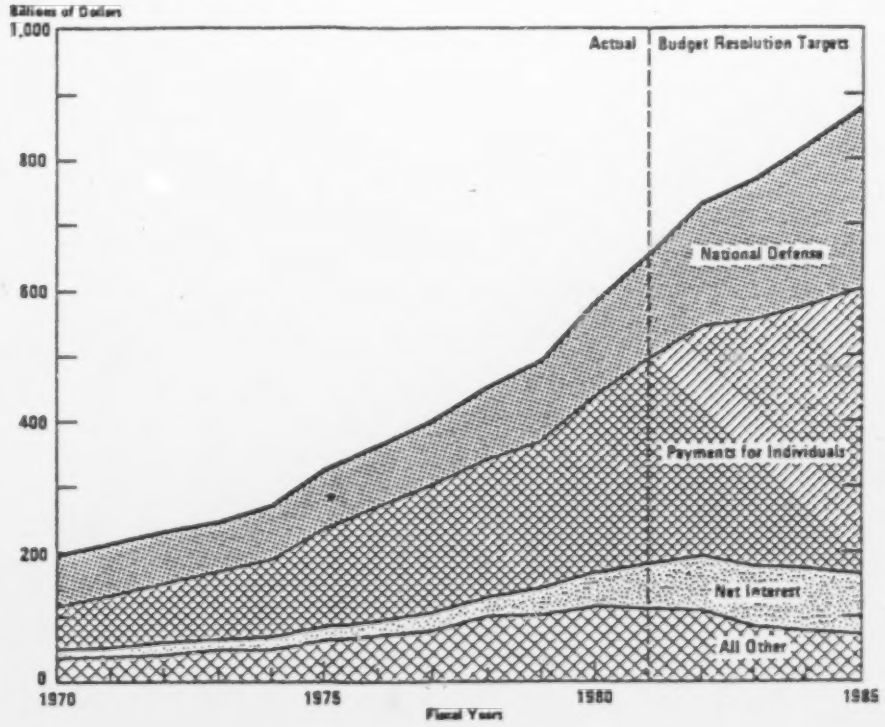
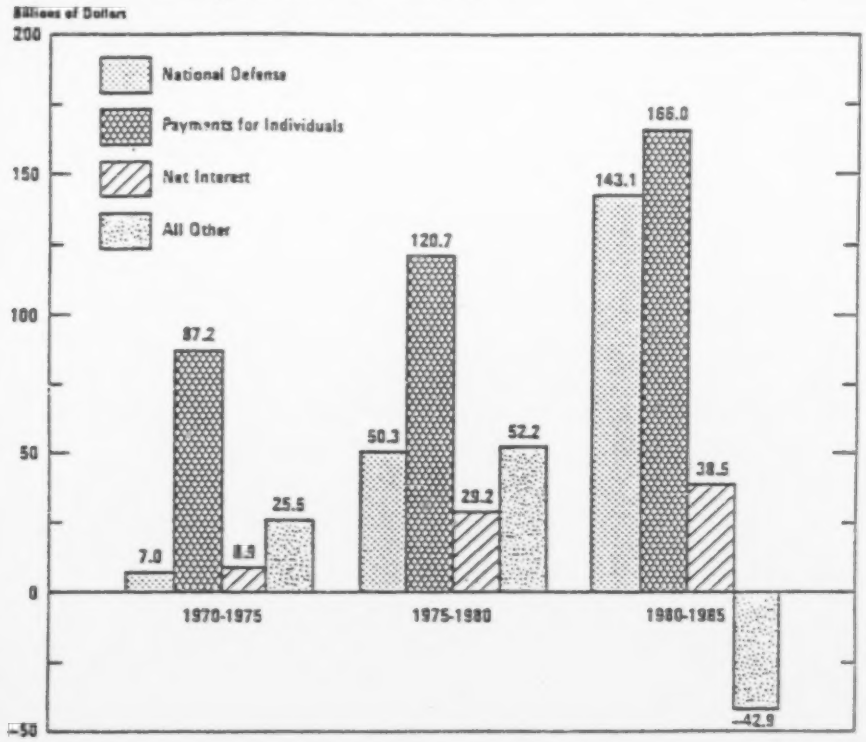


Figure 4 shows the increases in outlays over five-year intervals, by each of the four sources shown in the preceding figure. It illustrates the very large part played in these increases by benefit payments for individuals. The benefit populations are growing, and cost-of-living adjustments increase the outlays still further. In

short, these benefit outlays in 1980–1985 will be driven by demographics and by inflation and not by the addition of new programs. Figure 4 also shows the changes in defense spending: in 1970–1975 the growth was small, it was larger in 1975–1980, and in 1980–1985 it will almost equal the increase in benefit payments.

Figure 4.
Sources of Outlay Growth, 1970-1985



The negative bar at the far right of Figure 4 shows the decline in all other outlays under the first budget resolution.

I would like to turn now to Table 4. It is another way of looking at the relative shares of the main categories of outlays over the next several years. It shows, in terms of dollars and percentages, what we saw in Figures 2, 3, and 4—the growing shares of defense, Social Security, and other payments to individuals, and how the "other nondefense" category, the part of the budget that people like to talk about cutting, is in fact going down significantly. The second set of figures in Table 4 puts this in terms of growth rates. It shows the very substantial growth in defense outlays year after year, the decelerating growth rates in Social Security, other payments to individuals, and net interest, and the sharply negative growth—that is, absolute declines—in the other nondefense area.

TABLE 4.—COMPOSITION OF OUTLAYS

[By fiscal year]

	Actual 1981	Budget resolution targets			
		1982	1983	1984	1985
	In billions of dollars				
National defense	159.8	187.6	214.0	243.3	279.0
Social Security	138.0	155.3	169.7	185.6	202.0
Other payment to individuals	178.6	196.2	206.6	217.0	234.9
Net interest	68.7	84.4	94.1	97.8	91.0
Other nondefense	112.1	110.6	85.4	78.2	74.3
Unified budget outlays	657.2	734.1	769.8	821.9	881.4
Off-budget Federal entities	21.0	19.8	21.4	20.7	20.2
Total outlays	678.2	753.9	791.2	842.6	901.6
	Percent change				
National defense	17.6	17.4	14.1	13.7	14.7
Social Security	17.8	12.5	9.3	9.4	8.9
Other payment to individuals	15.9	9.9	5.3	5.0	8.2
Net interest	31.0	22.9	11.5	3.9	−7.0
Other nondefense	−4.4	−1.3	−22.8	−8.4	−5.0
Unified budget outlays	14.0	11.7	4.9	6.8	7.2
Off-budget Federal entities	47.5	−5.7	8.1	−3.2	−2.4
Total outlays	14.8	11.2	4.9	6.5	7.0
	Percent share of unified budget				
National defense	24.3	25.6	27.8	29.6	31.7
Social Security	21.0	21.2	22.0	22.6	22.9
Other payment to individuals	27.2	26.7	26.8	26.4	26.7
Net interest	10.5	11.5	12.2	11.9	10.3
Other nondefense	17.1	15.1	11.1	9.5	8.4
Unified budget outlays	100.0	100.0	100.0	100.0	100.0

Note.—House Budget Committee assumptions.

Table 5 provides more details on the outlays for benefit payments for individuals, which constitute the largest portion of the federal budget. It distinguishes these payments between social insurance programs and means-tested programs. Between 1981 and 1985, benefit payments are projected to grow by $120 billion, or 38 percent. Social Security, Medicare, and Medicaid payments alone account for 84 percent of this growth.

TABLE 5.—OUTLAYS FOR BENEFIT PAYMENTS FOR INDIVIDUALS

[By fiscal year, in billions of dollars]

	Actual 1981	Budget resolution			
		1982	1983	1984	1985
Social insurance programs:					
Social Security (OASDI)	138.0	155.3	169.7	185.6	202.2
Railroad retirement	5.3	5.3	5.7	6.1	6.5
Medicare	42.5	49.8	54.7	62.4	72.5
Unemployment compensation	19.7	23.0	24.9	22.7	22.3
Civil service retirement and disability	17.7	19.7	21.2	22.8	24.3
Veterans' compensation and readjustment benefits	10.8	11.5	11.8	12.3	13.0

TABLE 5.—OUTLAYS FOR BENEFIT PAYMENTS FOR INDIVIDUALS—Continued

[By fiscal year, in billions of dollars]

	Actual 1981	Budget resolution			
		1982	1983	1984	1985
Other	13.4	14.7	15.0	14.7	14.6
Subtotal	247.4	279.3	303.0	326.6	355.4
Means-tested programs:					
Guaranteed student loans and other education	6.2	6.5	6.7	7.0	6.6
Medicaid	16.8	17.9	18.5	20.2	23.3
Food stamps	11.3	11.5	11.2	11.4	11.8
Other food and nutrition programs	4.9	4.5	5.6	6.0	6.3
Housing	6.8	8.1	8.8	9.9	10.8
Supplemental security income	7.2	7.9	8.8	7.8	8.9
Assistance payments (AFDC)	8.5	8.1	6.4	6.5	6.9
Veterans' pension	3.8	3.6	3.6	3.6	3.7
Other income security	3.8	4.1	3.7	3.6	3.4
Subtotal	69.3	72.2	73.3	76.0	81.7
Total	316.7	351.5	376.3	402.6	437.1

Note.—House Budget Committee assumption.

ANNUAL APPROPRIATIONS PROCESS

The next major point I would like to make is that major reductions in Federal spending cannot be accomplished solely through the annual appropriation process. Table 6 takes the outlay side of the budget and divides it by committee jurisdiction, in terms of what we call direct spending jurisdictions or the so-called Section 302 allocations that are part of the budget resolution. It shows how much of the direct outlays in various years would be the responsibility of the Appropriations Committee, and how much that of the authorizing committees. There is a bottom line for offsetting receipts that aren't allocated to any committee.

Looking at the line for gross outlays in Table 6, you can see some very marked shifts taking place in committee jurisdictions. Back in 1970, the Appropriations Committee had responsibility for two-thirds of gross outlays, and the authorizing committees had responsibility for only one-third. In 1983, the responsibility is almost evenly divided. From the point of view of the Appropriations Committee, it is even worse because the first line for that committee consists of appropriated entitlements over which it has no control. In effect, it simply has to appropriate the monies as the costs come through. The only areas in which that committee can cut expenditures are national defense and "other."

On a percentage basis, the lower tier of Table 6 shows that in 1970 the two lines for national defense and "other" added up to roughly 59 percent of gross outlays subject to control through the appropriations process. By 1985, under the targets of the first budget resolution, that percentage will have shrunk to 42. The point I want to make here is that spending cannot be significantly reduced through the appropriations process alone.

TABLE 6.—DISTRIBUTION OF BUDGET OUTLAYS BY COMMITTEE JURISDICTION

[By fiscal year]

	Actual		Budget resolution	
	1970	1980	1983	1985
	In billions of dollars			
Appropriations Committee:				
Appropriated entitlements	17	66	83	94
National defense	76	125	197	259
Other	48	170	178	183
Subtotal	141	361	458	536
Authorizing committees:				
Ways and Means	60	242	384	436
Other committees	10	55	67	71
Subtotal	70	297	451	507
Gross outlays	211	658	909	1,043
Offsetting receipts (not allocated to committees)	−15	−81	−139	−162
Net outlays	196	577	770	881
	Percent of gross outlays			
Appropriations Committee:				
Appropriated entitlements	8.1	10.0	9.1	9.0
National defense	36.0	19.0	21.7	24.8
Other	22.7	25.8	19.6	17.6
Subtotal	66.8	54.9	50.4	51.4
Authorizing committees:				
Ways and means	28.4	36.8	42.2	41.8
Other committees	4.7	8.4	7.4	6.8
Subtotal	33.2	45.1	49.6	48.6
Gross outlays	100.0	100.0	100.0	100.0

The increased role of the Ways and Means Committee in this can be seen from the change in the percent of gross outlays falling within its jurisdiction. These rise from 28 percent in 1970 to 42 percent in 1985. That is principally because Ways and Means has jurisdiction over Social Security and Medicare, which, as we saw earlier, are becoming an even larger proportion of total outlays. Also, Ways and Means is charged with interest on the public debt.

I don't believe that the answer would be to change the jurisdictions of the committees. If you ran Social Security and Medicare through the annual appropriations process, I am not sure that you would get any better control. Furthermore, I am not sure you would want to do that, simply because I don't think the country could stand having uncertainty each year as to the amount available for Social Security benefits. These benefits have now become an integral part of people's life plans, and I think the uncertainties that would arise if they were subject to annual appropriations would be more than could be tolerated.

Table 7 shows the jurisdictions in the House of the spending reduction measures that were assumed in the first budget resolution. It has three categories: the Appropriations Committee, the author-

izing committees, and a group of spending reduction measures that are assumed to happen without any specific legislative action. You will observe that over half of the spending reductions for the period as a whole fall into that last category.

TABLE 7.—HOUSE COMMITTEE JURISDICTION FOR SPENDING REDUCTIONS ASSUMED IN FIRST BUDGET RESOLUTION FOR FISCAL YEAR 1983

[By fiscal year, in billions of dollars]

	1983	1984	1985	Total 1983–85	Percent
Appropriations Committee:					
Defense (except pay and entitlements	7.8	8.3	10.3	26.4	9.4
Federal pay raises	5.1	8.9	12.1	26.1	9.3
Federal employment reduction	.8	1.0	1.0	2.8	1.0
Other nondefense discretionary savings	5.7	10.2	18.8	34.7	12.4
Subtotal, Appropriations	19.4	28.4	42.4	90.0	32.1
Authorizing committees:					
Ways and Means	4.6	6.9	7.7	19.2	6.9
Agriculture	1.9	1.8	1.7	5.4	1.9
Post Office and Civil Service	.8	1.5	2.5	4.8	1.7
Other	2.5	3.9	5.0	11.4	4.1
Subtotal, authorizing committees	9.8	14.1	16.9	40.8	14.6
Other spending reduction measures:					
Management savings	12.2	15.4	14.1	41.7	14.9
Lower interest rates	8.0	19.1	27.8	54.9	98.6
Debt service savings	6.5	17.7	28.6	52.8	18.8
Subtotal, other	26.7	52.2	70.5	149.4	53.3
Total spending reductions	55.9	94.7	129.6	280.2	100.0

Of those subject to committee action, it is significant that two-thirds have been assigned to the Appropriations Committee (that is, $90 billion to Appropriations and $41 billion to the authorizing committees). The authorizing committees could achieve all of their spending reductions with legislative actions this calendar year, while the Appropriations Committee would have to keep at it during this year, next year, and the following year.

The reason such a large percentage of the spending cuts has been assigned to the Appropriations Committee lies in the nature of the cuts. The cuts are not directed toward entitlement programs but rather toward discretionary programs that are the jurisdiction of the Appropriations Committee.

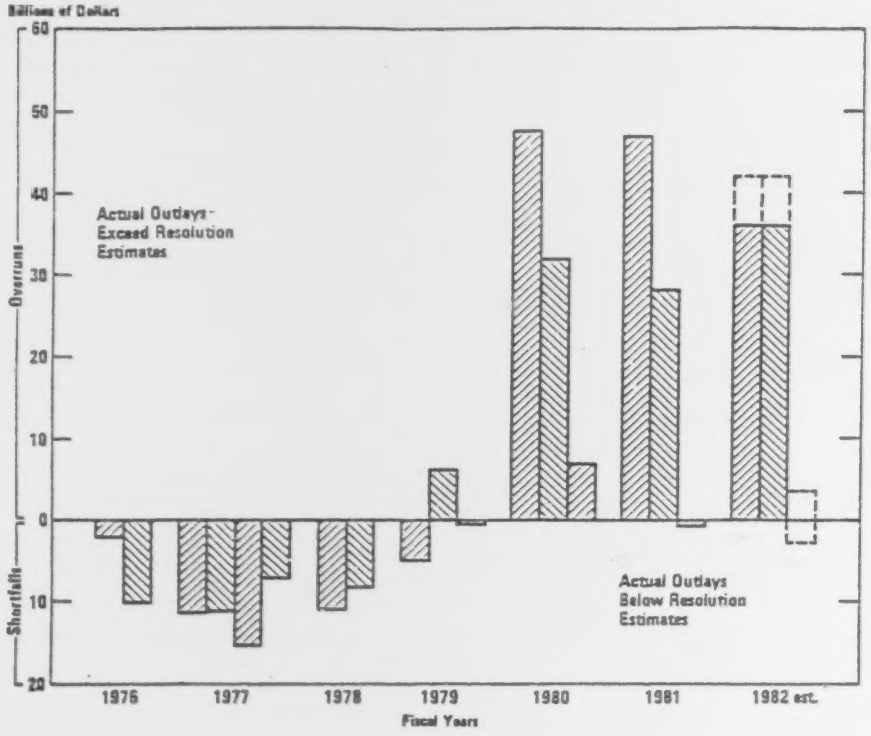
ACTUAL OUTLAYS CAN DEVIATE FROM PLANNED OUTLAYS

I have now covered the first four points of my outline. I want to turn to the fifth, which is that actual spending can deviate from estimated levels by large amounts in any one year because of factors outside the control of the Congress or the President. I would like to begin by going back over some of the material that was covered in one of your earlier work sessions by Lou Fischer. Figure 5 gives an overview of actual outlays compared with budget resolution targets since the beginning of the resolutions back in 1976.

The bars represent the amounts by which actual outlays exceeded or fell below the resolution estimates, whether first budget resolutions, second, second revised, or others. Until 1979, the outlays came in below the resolution estimates. That was the famous "shortfall" problem, when the government failed to spend as much as anticipated. Since 1980, the situation has been reversed, with actual spending much higher than contemplated in almost every resolution.

Figure 5 also demonstrates that the numbers on the outlay side can change dramatically during the course of a year, between a first resolution and a second revised resolution. Table 8 shows this in terms of absolute figures, and includes revenues and deficits as well as outlays. If you run down the table very quickly, you can see that for revenue the numbers were all pretty stable through 1976, 1977, and 1978, coming in very close to the resolution targets. In 1979 they actually came in higher than estimated, largely because inflation turned out to be higher than assumed. The same was true in 1980, but in 1981 and 1982 the revenues turned out to be lower than assumed because of the recession. In 1982 they are expected to be sharply lower than assumed in the first and second resolutions, almost $40 billion lower.

Figure 5.
Actual Outlays Compared with Budget Resolution



On the outlay side, results are mixed. There were shortfalls in the 1970s, as we have already seen from Figure 5, and since then very large increases in spending over the resolution levels. Why is this? Table 9 provides a breakdown of the reasons for the differences between actual outlays and budget resolution estimates. In some cases, the economic assumptions proved inaccurate. This was markedly so in 1980, when the spending overrun was more than 10 percent above the second resolution estimate. The budget is very sensitive to changes in economic assumptions, as Table 10 shows. For example, taking the top line in that table, if real economic growth were to be 1 percent lower annually in 1983–1987 than we are currently assuming, revenues would be tens of billions of dollars lower and deficits correspondingly higher than we have projected.

TABLE 8.—CONGRESSIONAL BUDGET RESOLUTIONS AND ACTUAL BUDGET TOTALS

[In billions of dollars]

Fiscal year	Revenues	Outlays	Surplus or deficit (–)
Fiscal year 1976:			
1st resolution	298.18	367.0	–68.82
2d resolution	300.8	374.9	–74.1
Actual	299.2	364.8	–65.6
Fiscal year 1977:			
1st resolution	362.5	413.3	–50.8
2d resolution	362.5	413.1	–50.6
3d resolution	347.7	417.45	–69.75
2d resolution amended	356.6	409.2	–52.6
Actual	356.9	401.9	–45.0
Fiscal year 1978:			
1st resolution	396.3	460.95	–64.65
2d resolution	397.0	458.25	–61.25
Actual	401.1	449.9	–48.8
Fiscal year 1979:			
1st resolution	447.9	498.8	–50.9
2d resolution	448.7	487.5	–38.8
Revised 2d resolution	461.0	494.45	–33.45
Actual	465.9	493.7	–27.7
Fiscal year 1980:			
1st resolution	509.0	532.0	–23.0
2d resolution	517.8	547.6	–29.8
Revised 2d resolution	525.7	572.65	–46.95
Actual	520.0	579.6	–59.6
Fiscal year 1981:			
1st resolution	613.8	613.6	.2
2d resolution	605.0	632.4	–27.4
Revised 2d resolution	603.3	661.35	–58.05
Actual	602.6	660.5	–57.9
Fiscal year 1982:			
1st resolution	657.8	695.45	–37.65
2d resolution	657.8	695.45	–37.65
Revised 2d resolution	628.4	734.1	–105.7
Latest CBO estimate	620–625	735–740	–115
Fiscal year 1983: 1st resolution	665.9	769.8	–103.9

Note.—Actual totals have been adjusted where necessary to agree with the budgetary treatment of various items used for the budget resolutions.

TABLE 9.—REASONS FOR DIFFERENCES BETWEEN ACTUAL OUTLAYS AND CONGRESSIONAL BUDGET RESOLUTIONS FOR FISCAL YEARS 1978–80

[In billions of dollars]

Reason	Overrun/Shortfall (−)					
	Resolution		Revised 2d Resolution 1979	1st Resolution 1980	2d Resolution 1980	Revised 2d Resolution 1980
	1978	1979				
1. Inaccurate economic assumptions	0.1	5.9	−0.8	15.7	10.8	2.7
2. Inaccurate legislative assumptions	−1.4	−1.2	−1.6	8.2	2.0	.1
3. Unexpected administrative actions by executive branch	.7	1.5	.2	6.2	5.3	−.1
4. Unexpected weather conditions, disasters, and other events	2.0	−.6	.5	−1.6	1.2	.1
5. Inaccurate estimating methods and assumptions	−9.7	.6	1.0	19.1	12.7	4.3
Total overrun or shortfall (−) from budget resolutions	−8.4	6.2	.8	47.6	32.0	7.0

Going back now to Table 9, we can see a number of other reasons why spending can come in under or over a resolution. Legislative assumptions in the resolution may prove to be inaccurate—that is, the resolutions may contain built-in assumptions that the Congress will do something that it eventually doesn't do. This was very much the case earlier on, particularly in the House, where so-called legislative savings were built into the resolution targets and then failed to materialize. One example was the hospital cost containment bill, assumed in the resolution but defeated on the Floor.

TABLE 10.—THE EFFECT ON BUDGET PROJECTIONS OF SELECTED CHANGES IN ECONOMIC ASSUMPTIONS

[By fiscal year, in billions of dollars]

	1983	1984	1985	1986	1987
Real growth: Effect of 1 percentage point lower annual rate beginning January 1983					
Change in revenues	−9	−23	−35	−45	−60
Change in outlays	2	5	11	17	24
Change in deficits	10	28	46	62	83
Unemployment: Effect of 1 percentage point higher annual rate beginning January 1983					
Change in revenues	−20	−29	−26	−22	−20
Change in outlays	5	10	13	15	17
Change in deficits	25	39	39	37	37
Inflation: Effect of 1 percentage point higher annual rate beginning January 1983					
Change in revenues	6	15	23	32	40
Change in outlays	(1)	1	5	8	11
Change in deficit	−6	−14	−18	−24	−29
Interest rates: Effect of 1 percentage point higher annual rate beginning January 1983					
Change in revenues	1	1	1	2	2
Change in outlays	2	6	9	12	14
Change in deficit	1	5	8	10	12

[1] Less than $500,000,000.

Note.—Detail may not add to totals due to rounding.

Another reason for overruns or shortfalls can be found in inaccurate estimating assumptions. As Table 9 shows, these were a major reason for the large discrepancies in 1980. This is really a residual category for a number of factors that cause our estimates of spending to be less accurate than we would like. For example, it is difficult to know just how fast appropriations for defense wil be spent in any given year. All that the Congress does is to appropriate budget authority, leaving it to the Defense Department to enter into the requisite contracts and to see that these are carried out on schedule. Other examples of inaccurate assumptions include projections of Social Security benefits, which depend on assumptions about demographic trends. We also have to make assumptions about participation rates for food stamps and other payment programs. We often make these assumptions using analyses of historical trends, and we construct elaborate mathematical models for doing that, but estimating is still very much of an art.

Another category of reasons why outlays differ from the assumptions in the budget resolution consists of unexpected administrative actions by the Executive Branch. For example, the Administration can adjust price support levels under the farm price support program, which gives the Secretary of Agriculture a good deal of flexibility. The Administration can also make decisions about its loan asset portfolios—whether to sell assets this year or next—and that will affect outlays for this year.

Then there are unexpected weather conditions, disasters, and other unforeseen acts of nature, which involve disaster assistance payments and other outlays.

Looking at Table 9, we can see how the reasons for the differences between outlays and resolution targets changed over the three years. In 1978 the major reason was that we overestimated spending for "technical" reasons. Our estimating methods and assumptions proved to be inaccurate. Our spending rates were geared too high, and we overestimated other things. There seemed to be a sort of upward bias in our spending estimates at that time. We worked very hard to get rid of that bias and apparently by the following year we had, since the major reason for the overrun against the second resolution in 1979 was inaccurate economic assumptions. In 1980, about a third of the overrun in the case of the first resolution can be attributed to the economic assumptions. But inaccurate legislative assumptions also led us astray that year. That budget also covered the period of the Soviet activities in Afghanistan that led the Administration to put a freeze on exports of farm commodities. Tables 11 and 12 analyze the reasons for the outlay overruns in 1981 and 1982.

TABLE 11.—REASONS FOR THE INCREASE IN FISCAL YEAR 1981 OUTLAYS FROM THE INITIAL BUDGET ESTIMATE

[In billions of dollars]

Reasons for change	Total outlays	National defense	Nondefense
Economic conditions:			
Inflation	14.8	7.3	7.5
Interest rates and changes in borrowing	17.5	.....	17.5

TABLE 11.—REASONS FOR THE INCREASE IN FISCAL YEAR 1981 OUTLAYS FROM THE INITIAL BUDGET ESTIMATE—Continued

[In billions of dollars]

Reasons for change	Total outlays	National defense	Nondefense
Subtotal	32.3	7.3	25.0
Policy changes	5.7	4.9	.8
Unforeseen events	.6		.6
Estimating differences and other changes	6.2	1.3	4.9
Total	44.8	13.5	31.3

Source: Office of Management and Budget, "Budget of the United States Government, Fiscal Year 1983," pp. 6–27 to 6–30.

TABLE 12.—REASONS FOR THE INCREASE IN FISCAL YEAR 1982 OUTLAYS FROM THE FIRST BUDGET RESOLUTION

	Amount (billions)
Economic conditions:	
Lower inflation	—$1.2
Higher unemployment	6.0
Higher interest rates	5.2
Changes in borrowing (higher deficits)	9.3
Subtotal	19.3
Technical reestimates:	
Farm price supports	9.1
Medicare	3.3
OCS receipts	3.1
Defense programs	2.7
Other	3.4
Subtotal	21.6
Accounting change: Shift medicare premiums from revenues to offsetting receipts	—3.9
Policy changes	1.7
Total	38.7

Source: Preliminary CBO estimates.

CONCLUSION

In conclusion, I would make two points about the implications of all this for the budget process. First, I think that the Congress needs to have more effective procedures for enforcing the plans that it puts into a budget resolution. If the balanced budget amendment is adopted, this will become even more pressing. Once the Congress decides where it wants to go with a budget, it needs a mechanism to guarantee that the resolution will be implemented. Right now we have a seriously underfinanced budget. Something will have to be done to rectify that problem over the next several years, and I think that will require very strong actions by the Congress and very strong procedures to enforce those actions.

Some possible ways of strengthening the budget process could include the following actions:

(1) Change the first budget resolution targets to binding limits and eliminate the requirement for a second resolution.

(2) Make the reconciliation process a permanent part of the first budget resolution.

(3) Move toward an omnibus appropriation bill, and possibly an omnibus budget bill as proposed by Congressmen Gephardt and Obey. Require all authorizations to be in place for on-going programs by June 1.

(4) Extend the budget resolutions to a three-year period and apply the same enforcement procedures to the second and third years.

(5) Make the Budget Committee a leadership or executive committee of the House.

Second, there is always a great deal of uncertainty not only with economic forecasts but also with budget estimates. I think the budget process must provide some flexibility to allow for changes in the budget estimates. It seems to me that you cannot have a successful budget process that depends on absolute accuracy in the budget estimates or the economic forecasts. Some way needs to be found of keeping up with what is happening in the real world. This could include the following actions:

(1) Establish a specific time schedule for the adoption of budget reestimates.

(2) Either allow the budget resolution targets to be revised automatically for nonpolicy changes following periodic review by the Budget Committee, or continue to provide for the adoption of revised resolutions after the beginning of the fiscal year.

PRESENTATION BY RONALD S. BOSTER, DIRECTOR OF LEGISLATION, OFFICE OF CONGRESSMAN WILLIS D. GRADISON

Budget and the Economy

No matter what is done to the budget process, budgeting is always going to be an incremental process. Even under a zero-based budgeting system, budgeting comes down to adding and subtracting increments to a previous budget. These increments are of a relatively small order, rarely more than 10 percent, but which nevertheless do and can have important economic and political repercussions.

I want to start by taking a short time to talk about an issue that hardly bears repeating, and that is the issue of the sensitivity of the budget to the economy and vice versa. The main point is that the budget influences the economy and the economy influences the budget. It is a two-way street.

One of the problems is that this two-way street is not equal; it does not have the same number of lanes running in each direction. Changes caused to the budget by changes in the economy are much greater than changes to the economy caused by changes in the budget.

Furthermore, it is easier to predict changes in the budget than it is to predict changes in the economy. The reason is that the economy is more complex, bigger, and more susceptible to exogenous impacts, such as oil embargoes, wars, and changes in investment psychology.

Few economists today regard fiscal policy as the surgical policy tool it was once held to be. We have seen in recent years that an aggressive monetary policy can swamp a fiscal policy, and yet, in the congressional budget process, hardly any attention is paid to monetary policy. Nevertheless, deliberate changes in the Federal budget can and do result in noticable changes in the economy.

The Federal budget consists of almost one quarter of the gross national product. A deliberate decision to change the budget by, say 5 percent instead of 3 percent represents $60 billion in a $3 trillion economy. (To be sure, there are other important issues involved, such as how that 2 percent is financed, and how it is spent and on what.)

At this point, I call your attention to the table below. What I have tried to do is to present in a basic way, salient examples of the sensitivity of the budget to changes in the economy. I have shown four economic indicators—economic growth, unemployment, inflation, and interest rates—and how a 1 percent change (up or down) would affect revenues, spending, and the deficit.

EXAMPLES OF SENSITIVITIES OF THE BUDGET TO CHANGES IN THE ECONOMY

[In billions of dollars]

	Changes revenues by	Changes spending by	Changes the deficit by
A 1-percent change in:			
Economic growth	23	5	28
Unemployment	29	10	39
Inflation	18	1	17
Interest rates	1	6	5

Note.—Changes are assumed to be at annual rates and begin at January 1983 for fiscal year 1984. 1 percent changes are either up or down by that amount.

Source: CBO.

Five or six years ago, when we first focused on some of these relationships, we had to make some heroic assumptions to conclude that a 1 percent change in unemployment would cause a $16 billion change in the deficit. Now, as you see in this table, wisdom holds that a 1 percent change in unemployment will likely change the deficit by $39 billion.

Arguments can be made that recent legislative actions will cause the sensitivity of the budget to decrease. For example, because of changes to the national trigger on unemployment and to tax indexing, the responsiveness of the budget should in the future be somewhat less than shown in the handout.

This is a good place to note that budgeting is anything but a static process. This point is important because of a natural tendency is to think of budgets and budget processes as somewhat fixed in time. In fact, budgets and budgeting are very dynamic, as the sensitivities shown in the table above reveal.

The next table is intended to illustrate this property. Admittedly this is a dramatic example, but it is real and is chosen to make the point.

Causes of differences between budget projections (an example using CBO baselines of July 1981 and February 1983)

	Billions
Original baseline (July 1981) for fiscal year 1984	[1] $76
Differences between original baseline (July 1981) and new baseline (February 1983) for fiscal year 1984 caused by:	
Changed economic outlook	−173
Legislative actions (i.e., policy)	−74
Technical (estimating) changes	−27
Total differences	−274
New (February 1983) baseline budget margin	[2] −197
Total "swing" between July 1981 and February 1983 in budget margin (i.e., from a baseline surplus of $76,000,000,000 to a baseline deficit of $197,000,000,000 over 17 mo	273

[1] Surplus.
[2] Deficit.

An original CBO baseline budget for fiscal year 1984 produced in July 1981 showed a fiscal year 1984 surplus of $76 billion. Nineteen months later, a revised CBO baseline, showed a deficit of $197 billion. This is a swing of $273 billion.

The changes can be categorized in three general areas. By far, the largest result from changes in the economic outlook, the result of changed economic assumptions.

In this case, 63% of the total change is the result of revised economic assumptions. These may be of two types: honest and otherwise. There is clearly a political temptation to adopt unrealistic economic assumptions in order to "cook" the budget numbers and make them more palatable. I'm told this has been done in the past.

Nevertheless, changes in economic outlook need not be phoney. Quite aside from policy decisions, economic horizons can and do change, often dramatically. I raise these points as a caution to the temptation of so-called fail-safe mechanism, whereby a previously-adopted budget resolution is "automatically" updated for "changed economic outlook".

Let me now turn to the issue of budget resolutions and their scope, which I think gets more to the function and purpose of the task force. At the heart of every budget process that has been proposed is a legislative vehicle called a budget resolution. One important issue, then, is the nature and scope of budget resolutions.

What form should a budget resolution take? What should it contain? How comprehensive should it be? Should it be binding, and if, so, how and to what extent. Should it cover one year, two years, or more?

There is no limit to the amount of information that can be put in a budget resolution or into accompanying reports. An important decision is determining the point at which information stops being useful (to Members) and starts becoming burdensome.

The table below lists what is currently required by the Budget Act to be contained in a budget resolution, in reports accompanying a budget resolution, and in a conference report. The law only makes a few specific requirements for a budget resolution—and most of those are familiar to you—total budget authority and outlay, total revenues, functional total deficit, and the debt subject to limit.

WHAT IS CURRENTLY REQUIRED IN BUDGET RESOLUTIONS AND REPORTS?

A. Budget resolutions: currently required by Budget Act (sec. 301):

1. Total (new) budget authority and (estimated) total outlays,
2. Functional totals for BA and outlays (19 major functions),
3. The budget margin (i.e., deficit or surplus)
4. Total revenues and the change, if any, that should be made to existing law in order to achieve the stated total revenue figure.
5. The public debt, and the amount, if any, the current debt ceiling should be increased or decreased.

B. Reports accompanying budget resolutions (req'd by sec. 301) and conference report (joint statement of managers) (sec. 302(a)):

1. A comparison of revenues estimated by the Budget Committee and those estimated by the President.
2. A comparison of BA and outlays between the President and the Budget Committee
3. A comparison of BA and outlays for each functional category, including a division between permanent appropriations and those provided in appropriation acts and also between "controllable" amounts and all other spending
4. Total revenues allocated by major sources
5. Economic assumptions and objectives underlying the resolutions *and* "alternative economic assumptions and objectives which the committee considered"
6. Five-year projections of BA, outlays, revenues, margin, and tax expenditures "the tax expenditure budget) by major functional categories"
7. "a statement of any significant changes in the proposed levels of Federal assistance to State and local governments" (sec. 301(d)(7))
8. "information, data and comparisons indicated the manner in which, and the basis of which, the committee determined each of the matters set forth in the concurrent resolution, and the relationship of such matters to other budget categories" (sec. 301(d)(8))

C. Conference reports: In addition to the provisions of section 301(a) ("A" above), section 302(a) requires the inclusions of an allocation of spending (BA and outlays) totals (commonly referred to as the "302 allocations") among each committee in the House and Senate.

Over the years, through the use of the elastic clause, quite a few items have been added to budget resolutions. The law also requires quite a few things to be included in the reports accompanying a budget resolution. Not all of these always get in, and perhaps some of them may even be unnecessary. Nevertheless, this is what the Act requires.

The basic issue with respect to budget resolutions is twofold. The first is content and coverage, and the second is process and control. The content or coverage issue is what should a budget resolution should contain, e.g., budget authority, outlays, revenues. Under processs or control, the issue has to do with the "teeth" of the resolution. How and to what extent should a resolution control the making of fiscal policy and the carrying out of its intent.

The table below is a shopping list of control and content elements. With respect to content, the items are in addition to what is currently required (I am making the assumption that you are going to retain what is currently required in the resolution at least). Items one through five are not strangers to members of the task force, or to Members generally. From time to time, there have been sense of the Congress resolutions or statements contained in budget resolutions pertaining to these points.

CONGRESSIONAL BUDGET PROCESS SHOPPING LIST FOR CONTENT AND CONTROL ELEMENT

Content elements (potential candidates for inclusions in budget resolutions—in addition to items currently required by the Budget Act):

Fundamental question: What should a federal/congressional budget be; what should it represent?
Level of detail:
1. Off-budget accounts
2. Credit budget
3. Tax expenditures
4. Capital budget
5. Monetary policy
6. Revenues by source
7. Items currently required in reports accompanying budget resolutions (e.g., econ. assump.)
8. Others?

Control elements (What mechanisms determine how and to what extent budget resolutions are enforced and/or changed?)
1. Target or binding resolutions?
2. One-year, two-year, or multi-year budget process?
3. Flexibility (how easy or difficult to change a resolution after it has been adopted).
4. Credibility (how "honest" is the resolution?)
5. Points of order (at what level of detail?)
6. Delayed enrollment (at what level of detail?)
7. Leadership.

In the budget, the framework of the Budget Act established revenues by source as a requirement for a report accompanying a budget resolution but not as part of the resolution itself. People have argued that revenues by source is analogous to spending by function. The same sort of argument can be made with respect to tax expenditures.

In 1984, by various accounts, tax expenditures will total approximately $300 billion. Tax expenditures—what some call loopholes or tax subsidies—respresent a narrowing of the revenue base and, therefore, a potential revenue source. The question is, because tax expenditures are by and large under one committee (Ways and Means, as are revenues generally), is it appropriate to segment revenues by source (e.g. individual and corporate income tax, excise tax) and/or tax expenditures in detail (perhaps by function) in the budget resolutions? If tax expenditures are deemed to be changed, e.g., by reconciliation directive, to do so would violate one of the historic tenets of the budget process, namely, that committees should make their own recommendations on programs within their jurisdiction.

The implication is that if you put in a resolution revenues by source or tax expenditures are put in a resolution, then the opportunity is presented perhaps deliberately, to amend the budget resolution on these points, and also to direct through reconciliation on these rather specific areas.

The issue to wrestle with, I think, is whether that is an appropriate deviation from the policy of not directing committees where to make changes within their jurisdictional areas. In past, directions to committees, whether Ways and Mans or others, have been in a form of dollar amounts, and it has been left to the committees to determine where, within their jurisdiction, the changes should be made.

I would like to spend a short time on the control elements because I think these are straightforward. These are issues that cut across any particular budget process option. No matter which option you choose, you must consider these factors.

Is the resolution "target" or "binding"? Is it going to be one year, two years, or multiyear? How easy is it to change if something goes haywire, or you decide to make a deliberate policy change? How "honest" is it—which gets back to the point of economic and technical assumptions I mentioned before. Is it going to be controlled through points of order or some other mechanism?

If delayed enrollment (an existing provision of the Budget Act) is employed, at what level is it to be effective—subcommittee (i.e., the disaggregated section 302 allocation) or overall (Appropriations) committee 302(a) level? The former is more strict; the latter is a modified "last-pig-to-the-trough" approach, analogous to the point of order provided for section 311 of the Budget Act. Both have been tried in recent years.

Mr. Chairman, we could spend many hours on the details of control elements and their options. I suspect your task force will do just that. For purposes of introduction and overview to this important topic, my point is simple—elements of control are not tied to a particular budget process proposal. Any proposal must make—either explicitly or implicitly—provisions for how and to what extent the budget process is to be controlled. Once these decisions are made, it all boils down to what I have listed on the shopping list above as "Leadership".

Because any budget process is by and large a rewrite of House and Senate rules, it can be changed at any time the votes are there. This is why I believe leadership is crucial. Whether or not one is happy with the experience of the past few years, the process worked, and it worked only because the leaderships of both sides were committed to a budget process.

Before turning to the specific issues of off-budget and budget treatment of credit programs, I would like to raise an issue about the nature of the budget. And I think this is something that has to be kept in mind as you consider various options. Specifically, you have to decide what you want the Federal budget to do, that is the best concept of the Federal budget

In 1967, the President's Commission on Budget Concepts recommended a unified budget. In the commission's eyes, the Federal budget should reflect "all the activities of the Federal Government." In other words, the unified budget concept is a cash-flow type budget in contrast to the old "Administrative" budget which separated trust funds from federal funds. In 1969, in part because of that Commission report, but no doubt also related to large surpluses in the Social Security system, President Johnson and the Congress went to a unified budget.

To be sure this is not the way businesses keep their books. Businesses treat assets differently. In effect, when the Federal Government builds an office building, it expenses it in one year. Businesses do not do that. There has been some recent discussions about moving to a capital budget. In my opinion, the unified and capital budgets are not mutually exclusive. Both can exist within a budget resolution. They simply show things differently.

Much the same may be said for the credit budget. The credit budget shows different things somewhat differently. Only in part is it a cashflow budget; rather, it is a tool to help explain the impacts of the Federal government's credit programs on the nation's credit

markets. Like a capital budget, it can be very useful. In short, there is considerable overlap among the various types of budgeting.

It is worthwhile to observe that, in terms of macroeconomic impacts, it matters not one wit what type or types of budget is employed. The markets don't know the difference.

No single budget concept will suffice for all worthwhile policy-making needs, but a budget resolution can serve these important needs because a budget resolution need not be restricted to a single budget concept.

Off-budget Spending and Budgetary Treatment of Federal Credit Programs

OFF-BUDGET SPENDING

Mr. Boster. Mr. Chairman, I now turn to two very important topics which you have asked me to address—off-budget spending and the budgetary treatment of federal credit programs.

At the onset, I would like to emphasize that these topics are independent of any particular budget process. The topics of off-budget and credit are recurring themes; almost every hearing and work session of this task force has had some reference to these topics, and considerable concern has been expressed by members of the task force.

There are few, if any, non-politically valid reasons for the presence of off-budget accounts side-by-side with a so-called unified budget. Yet, by law, the activities of some government and government-sponsored activities are outside the unified budget.

These entities are listed in Table 1. Usually, however, only the government entities are generally considered as "off-budget"; the "government-sponsored enterprises", which are privately owned, are perhaps best referred to as "extra-budget" entities.

Table 1.—Listing of Off-Budget and Government-Sponsored Enterprises

OFF-BUDGET ENTITIES

Federal Financing Bank.
Rural Electrification and telephone revolving fund.
Rural Telephone Bank
Strategic Petroleum Reserve account.
Postal Service fund.
U.S. Railway Association.
U.S. Synthetic Fuels Corporation.

GOVERNMENT-SPONSORED ENTERPRISES

(HUD) Federal National Mortgage Association (Fannie Mae)

Farm Credit Administration: Banks for cooperatives, Federal intermediate credit banks, Federal land banks.

Federal Home Loan Bank Board: Federal home loan banks, Federal Home loan Mortgage Corporation.

ADDENDUM (SPECIAL CASE; FOR COMPLETENESS)

Federal Reserve Board (Fed).

Why should there be concern over off-budget activities? The answer is that off-budget activities thwart the basic purposes of fiscal planning, policymaking, or budgeting, which, to me, are: 1) determining the size and impact of governments, and 2) determining the allocation of government resources among government programs and activities (that is, among the various budget functions or accounts).

How are these purposes violated by off-budget spending? In the case of the former, the size and impact of government is disguised because the true size and activity level of government is understated. In the latter, the allocation of federal resources are distorted by misstating the distribution of these resources among various programs and activities; this arises because off-budget activities fall disproportionately throughout the budget functions.

In my opinion, which I believe is shared by most observers, activities that are off-budget enjoy a political advantage vis a vis on-budget programs. Obviously, there is little political incentive to reduce off-budget spending if that action fails to result in any observed lowering of the deficit. Removal of off-budget status would put all programs on an equal footing as well as improve fiscal discipline.

Tables 2 and 3 show the growth in off-budget spending since its inception in fiscal year 1973. How did this state of affairs come about? I will be brief.

TABLE 2.—COMPARISON OF OUTLAYS FOR THE BUDGET, OFF-BUDGET FEDERAL ENTITIES, AND GOVERNMENT-SPONSORED ENTERPRISES

[In billions of dollars]

	Outlays			
	Federal Government [1]			Government sponsored enterprises [2]
	Budget	Off-budget Federal entities	Total	
Fiscal year:				
1965	118.4	.....	118.4	1.2
1966	134.7	.....	134.7	1.9
1967	157.6	.....	157.6	−2.9
1968	178.1	.....	178.1	1.7
1969	183.6	.....	183.6	4.3
1970	195.7	.....	195.7	9.6
1971	210.2	.....	210.2	(3)
1972	230.7	.....	230.7	4.4
1973	245.6	0.1	245.7	11.4
1974	267.9	1.4	269.4	14.5
1975	324.2	8.1	332.3	7.0
1976	364.5	7.3	371.8	4.6
TQ	94.2	1.8	96.0	2.3
1977	400.5	8.7	490.2	9.7
1978	448.4	10.4	458.7	24.5
1979	491.0	12.5	503.5	25.9
1980	576.7	14.2	590.9	25.3
1981	657.2	21.0	678.2	33.4
1982	728.4	17.3	745.7	42.4
1983 estimate	805.2	17.0	822.2	55.4

TABLE 2.—COMPARISON OF OUTLAYS FOR THE BUDGET, OFF-BUDGET FEDERAL ENTITIES, AND GOVERNMENT-SPONSORED ENTERPRISES—Continued

[In billions of dollars]

	Outlays			
	Federal Government [1]			Government sponsored enterprises [2]
	Budget	Off-budget Federal entities	Total	
1984 estimate	848.5	14.0	862.5	55.5
1985 estimate	918.5	10.5	929.0	([4])
1986 estimate	989.6	9.4	999.0	([4])

[1] The 1972–80 data have been revised to include the Export-Import Bank, the Housing for the Elderly or Handicapped fund, and the Pension Benefit Guaranty Corporation in the budget instead of with the off-budget Federal entities. The administrative expenses and interest collections of the Exchange Stabilization Fund are included in the budget beginning in 1976, and the actual profits and losses realized from foreign exchange transactions are included beginning in 1979. Earlier data for the ESF are not available on a comparable basis.

[2] To prevent double counting, outlays of Government sponsored enterprises exclude loans to other Government sponsored enterprises and loans to or from Federal agencies and off-budget Federal entities.

[3] $50,000,000 or less.

[4] Not available.

Source: The Budget of the United States, fiscal year 1984.

TABLE 3.—GROWTH OF OFF-BUDGET SPENDING

[Dollar amounts in billions]

	Off-budget deficit	On-budget (unified) deficit	Total Federal deficit	Off-budget deficit as a percentage of—	
				Unified deficit	Total deficit
1972	0	$23.4	$23.4	NA	NA
1973	[1] $.1	14.8	14.9	0.7	0.7
1974	1.4	4.7	6.1	29.8	23.0
1975	8.1	45.2	53.2	17.9	15.23
1976	7.3	66.4	73.7	11.0	9.9
Transition quarter	(1.8)	(13.0)	(14.7)	(13.9)	(12.2)
1977	8.7	44.9	53.6	19.4	16.2
1978	10.4	48.8	59.2	21.3	17.6
1979	12.5	27.7	40.2	45.1	31.1
1980	14.2	59.6	73.8	23.8	19.2
1981	21.0	57.9	78.9	36.3	26.6
1982	17.3	110.6	127.9	15.6	13.5

[1] Actually, $60,000,000.

I think there are three basic reasons. First, the Nixon impoundments, which led in no small way to the 1974 Budget Act, also contributed, perhaps significantly, to the creation of off-budget spending. This came about by the logic that the President was concerned about spending and the deficit *as it impacted on the budget,* and that spending which, by law, was not a part of the budget, and hence not feeding the deficit, would escape a presidential veto. It is inconsequential that the vast majority of members hadn't the slightest notion how this feat would be brought about.

Which leads to my second reason—the establishment of the Federal Financing Bank, or FFB, an entity of the Treasury whose outlays were defined in the law as falling outside the unified budget. Closely associated with the FFB were special provisions of law which allowed the off-budget Rural Electrification to hide major portions of their own program in the new, and off-budget, FFB.

Table 4 shows the attribution of FFB outlays, which amounted to some $14 billion in fiscal year 1984.

The third reason for the establishment of off-budget spending is, ironically, the 1974 Budget Act. By closing out new backdoor spending and otherwise making Congress and the country more cognizant of the costs of government programs, especially new programs the Budget Act no doubt heightened the search for relief from the new discipline. Table 4 below shows off-budget spending in fiscal year 1982.

TABLE 4.—OFF-BUDGET OUTLAYS BY FEDERAL AGENCY

Outlays of off-budget Federal entities

[In billions of dollars]

Off-budget Federal entity:	*1982 actual*
Federal Financing Bank	$14.1
Rural Electrification and Telephone revolving fund	(1)
Rural Telephone Bank	.1
Strategic Petroleum Reserve account	3.7
Postal Service fund	−.6
U.S. Railway Association	−(1)
Synthetic Fuels Corporation	
Total	17.3

[1] $50,000,000 or less.

Attribution of Federal Financing Bank outlays

[In millions of dollars]

Description	*1982 actual*
Outlays from loans, by agency or program:	
Farmers Home Administration: certificates of beneficial ownership	$4,915
Rural Electrification and Telephone revolving fund:	
Certificates of beneficial ownership	528
Direct loans to public	3,939
Foreign military sales credit	2,288
Education activities: Student Loan Marketing Association	700
Energy activities: Alternative fuels production	340
Housing and Urban Development:	
Section 108 loan guarantees	43
Low-rent public housing	696
Transportation: Railroad programs	78
National Aeronautics and Space Administration	120
Small Business Administration	142
Tennessee Valley Authority: Seven States Energy Corporation	336
Other	30
Subtotal, outlays from loans	14,155
Interest, administrative expenses, and payment of surplus income	−12
Total, FFB outlays	14,142

Source: The Budget of the United States, fiscal year 1984.

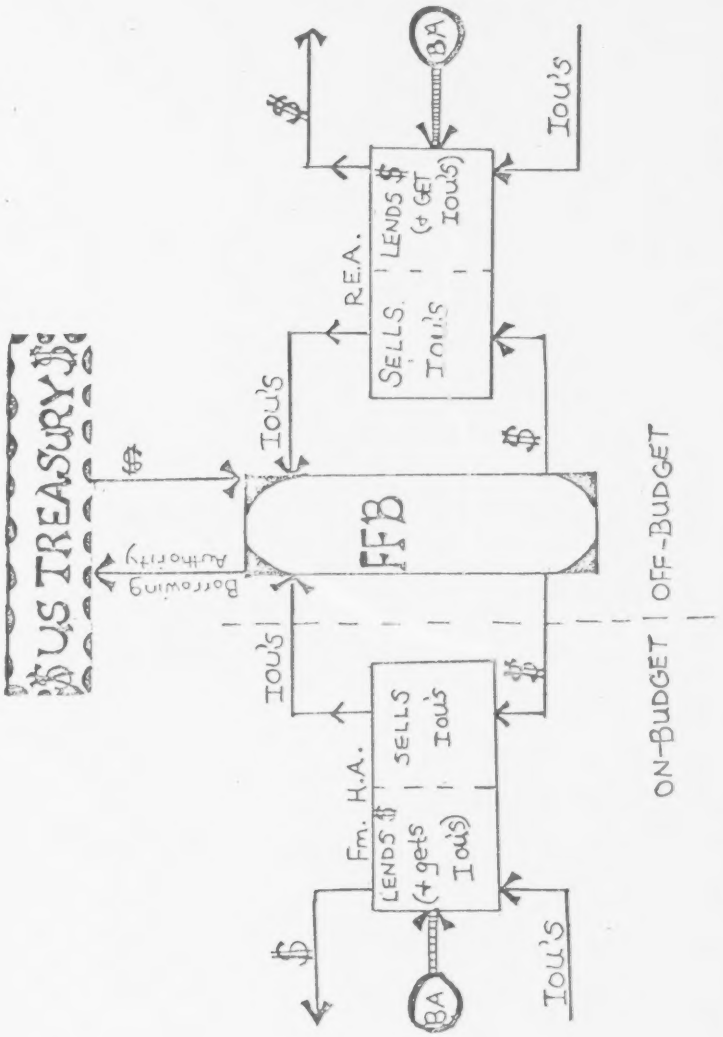
But regardless of how off-budget spending originated, it is very much with us. What are the mechanics of off-budget spending; how does it come about? Again, Mr. Chairman, I shall be brief.

Off-budget spending arises in two ways. The first way is simply by the spending of off-budget entities such as the REA. The second way is more circuitous. It arises from the transactions between on- or off-budget agencies with the FFB, and is illustrated in figure 1 for the bank's two principal customers, the REA and the FmHA.

FIGURE 1

ILLUSTRATION OF HOW THE FEDERAL FINANCING BANK OPERATES

(an example using the on-budget FmHA & off-budget REA)



This process consists of what is euphemistically called "selling" loans to the FFB, though in point of fact, these transactions are nothing less than agency borrowing. But rather than being recorded as such, they are instead recorded as a sale of an asset to the FFB. Accordingly, these transactions are recorded as outlays of the FFB and as income (actually, offsets to outlays) to the agency.

It is worth noting that the FFB is but a scapegoat in the scheme of these things. The FFB runs no programs of its own. The FFB does a good job of marketing agency debt (and, in the process, getting a lower interest rate than would be possible from the individual efforts of individual agencies). The principal problem is that because of the bank's off-budget status, on-budget agencies are able to move on-budget spending outside the unified budget, and by special provisions of law, some agencies—both on- and off-budget—are able to hide their activities under the skirt of the FFB.

In 1967, the President's Commission on Budget Concepts recommended that the budget of the United States Government be a cash-flow budget, unified so as to represent all the activities of the Federal government and its agencies. This was implemented in 1969, though for less than altruistic reasons. I would argue that this notion is most compatible with what the vast majority of people have in mind when they think of the "Federal budget".

On the assumption that spending off-budget is undesirable, the question becomes what to do about it. The unified budget concept—a cash flow type of budgeting—would, by definition, appear to solve the problem. Of course, by virtue of the presence of significant off-budget spending, we fool ourselves by referring to the current federal budget as "unified".

I see four basic options: 1) change individual laws individually; 2) correct most of the problem by bringing the FFB on budget, and in the process, change the accounting rules so that transactions with the FFB are properly recorded in on-budget accounts of the agencies who actually conduct the programs (based on 1982 data, nearly 80% of off-budget spending would be affected—$14 billion of the total off-budget spending of $17.3 billion); 3) an omnibus approach, perhaps as part of a major budget process reform bill; and 4) a de-facto approach, which is to say the Executive and Congress would produce true unified budgets in both budget submissions and budget resolutions, respectively.

In my opinion, options one and four are highly unlikely, but the other two are doable. I leave it to the members of the task force to weigh the relative merits and feasibilities of all the options.

CREDIT

Mr. Chairman, I now turn to the important issue of credit, which is closely related to the issue of off-budget spending. The lion's share of off-budget spending—79% in 1982—is for credit programs.

Of course, government programs may be carried out in many different ways: a) direct spending (e.g., grants, contracts, "in-house"); b) laws and regulations; c) the tax code (e.g., special credits, exemptions, deductions, exclusions); d) user fees; and e) credit (specifically, direct loans and loan guarantees). Any or all of these may be

appropriate or best for a particular program and/or policy. *All* have potential for abuse and inefficiency.

As shown in figures 2 and 3, Federal credit programs have experienced a phenomenal growth in recent years. Their growth has far outstripped the rapid growth of the total budget. For example, for the 1970's, budget outlays increased 151%, yet direct loans outstanding increased 250%, guaranteed loans increased 171%, net guaranteed loans increased 459%, and net direct loans increased 436%.

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Components of Net Federal Credit

FIGURE

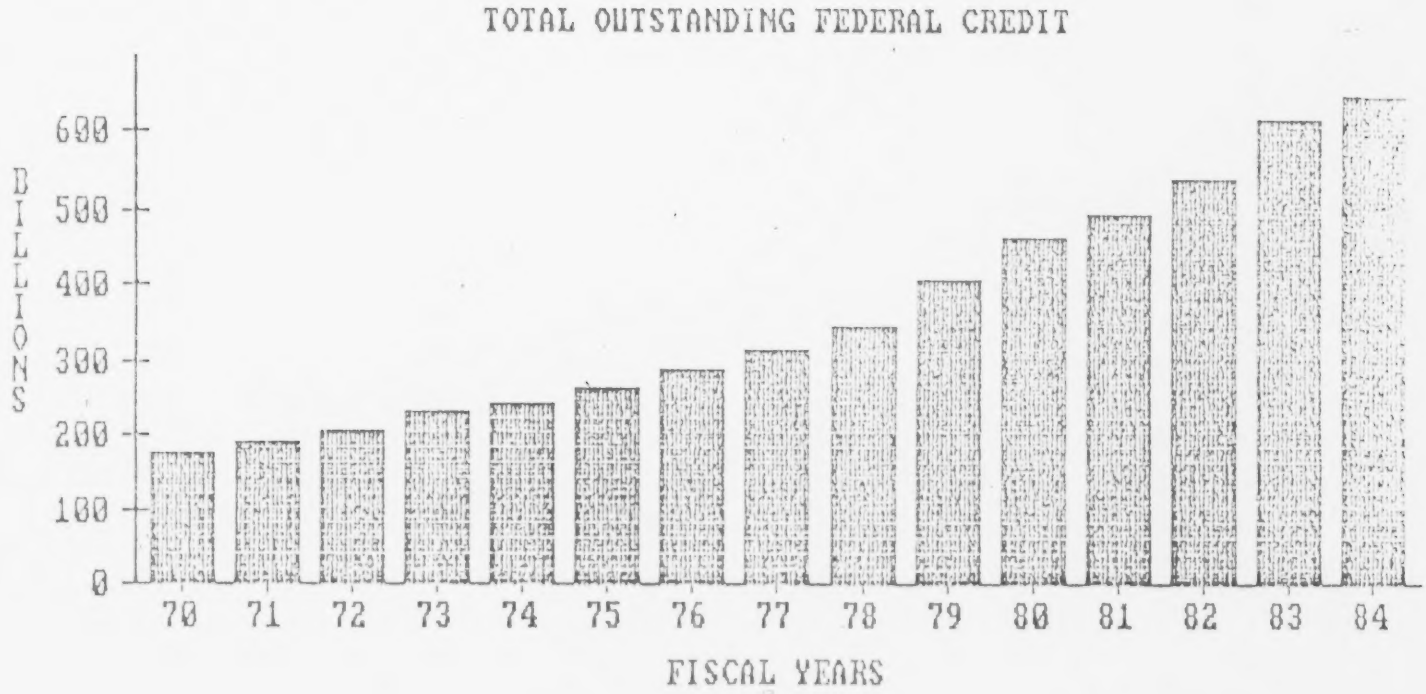
[a] Primary guarantees excluding secondary guarantees and guaranteed loans acquired by on- and off-budget agencies.

[b] Estimate.

SOURCE: *Budget of the United States Government, Fiscal Year 1984*, Special Analysis F, Federal Credit Programs.

Copied from: An Analysis of the President's Credit Budget for Fiscal Year 1984, Staff Working Paper, March 1983, CBO

FIGURE 3


TOTAL OUTSTANDING FEDERAL CREDIT
BILLIONS
600
500
400
300
200
100
0
70
71
72
73
74
75
76
77
78
79
80
81
82
83
84
FISCAL YEARS

Basically, there are only two types of credit programs: direct loans and loan guarantees. Direct loans are cash payments secured by a promise to repay—that is, an IOU. Loan guarantees are commitments by the government to "back up" all or part of a loan's principle in the event of a default. By law, loan guarantees are not counted as budget authority.

It is worth noting that loan guarantees are often converted into off-budget direct loans. For example, if the guarantee is issued by an on-budget agency and then purchased by the FFB, the result is to convert the guarantee into an off-budget direct loan. Why is this done? First, it is done to further the objectives of the loan programs by keeping interest rates down, and second, it is done to further the interests of government by keeping its overall interest costs down.

It is also worth noting that loan guarantees only result in government outlays in the event of a default on the part of the holder of the guarantee. While defaults are not common, given the total volumn of guarantees issued, they do run into the billions of dollars this year. *But whatever the reason, the common perception is that loan guarantees are costless—that they are free.*

This, of course, is an illusion, and for several reasons. First, as was just noted, there is an out-of-pocket cost of several billion dollars a year to cover defaults. Second, there is certain change in the allocation of resources, though this is difficult to measure and identify. Third, as noted before, many loan guarantees are converted to off-budget direct loans through purchase by the FFB.

Direct loan programs are generally recorded in the budget on a net basis. Not surprisingly, many have argued that this is both adequate and appropriate. In my judgment, these people are wrong for several reasons.

One reason is that fiscal policymaking—that is, budgeting—is more than displaying cash-flow consequences. At issue is the amount of resources usurped and actually used by the public sector *and* the extent to which spending, taxing, and other policies cause resource allocations to be different from what they otherwise would be.

Credit programs induce resource allocations that otherwise would not occur because the "credit priority line" is shifted; those at or near the bottom are moved to the head of the line. As a result, others in the line face higher interest rates, so they borrow less or leave the line. The effect is that interest rates for everyone goes up—the oft-heard "crowding out" impact.

Borrowing to finance credit programs has the identical affect as borrowing to finance normal spending programs. Table 5 shows the influence of Federal lending and borrowing relative to the total money/capital market. Remember, too, that practically any Federal program could be run as a credit program. Under current budgetary practice, we could nearly wipe out the deficit; we need only convert all government programs to loan guarantees.

TABLE 5.—FEDERAL PARTICIPATION IN DOMESTIC CREDIT MARKETS

[in billions of dollars]

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Total funds loaned and borrowed in U.S. credit markets	198.2	187.5	177.9	243.1	308.3	383.4	426.4	366.4	427.2	408.7
Loaned under Federal auspices:										
Direct loans:										
On-budget	0.9	3.3	5.8	4.2	2.6	8.6	6.0	9.5	5.2	9.1
Off-budget	.1	.8	7.0	6.7	9.0	11.2	13.6	14.7	20.9	14.3
Guaranteed loans	16.6	10.3	8.6	11.1	13.5	13.4	25.2	31.6	28.0	20.9
Government-sponsored enterprises	8.5	11.2	5.6	4.9	11.7	25.2	28.1	24.1	32.4	43.4
Total	26.1	25.5	27.0	26.9	36.7	58.4	72.9	79.9	86.5	87.6
Federal participation rate (percent)	13.2	13.6	15.2	11.1	11.9	15.2	17.1	21.8	20.2	21.4
Borrowed under Federal auspices:										
Federal borrowing from public	19.3	3.0	50.9	82.9	53.5	59.1	33.6	70.5	79.3	135.0
Borrowing for guaranteed loans	16.6	10.3	8.6	11.1	13.5	13.4	25.2	31.6	28.0	20.9
Government-sponsored enterprise borrowing	10.6	10.9	5.3	4.1	12.0	21.4	21.9	21.4	34.8	43.8
Total	46.5	24.2	64.8	98.1	79.0	93.9	80.7	123.5	142.1	199.7
Federal participation rate (percent)	23.5	12.9	36.4	40.4	25.6	24.5	18.9	33.7	33.3	48.9

Source: Budget of the United States Government, Fiscal Year 1984, Special Analysis F, Federal Credit Programs. Copied from: An Analysis of the President's Credit Budget for FY 1984, staff working paper, March 1983, CBO.

If substantial amounts of Federal credit activities are not reflected in the budget, then significant information is not available to most people. In effect, a gap is created that presents policymakers and the public with a false picture of both the size and functional activities of the government. With respect to distortions, a study I did a few years ago found distortions within budget functions can exceed 100%.

The exclusion of Federal credit programs from a new or revised congressional budget process would, therefore, constitute a major deficiency in the comprehensiveness of the new process, and perhaps more importantly, would perpetuate and likely expand a major loophole that could lead to a proliferation of credit programs in order to circumvent more visible policy scrutiny.

Indeed, much of this has already happened as the proliferation of credit spending since the 1974 Budget Act demonstrates. Again, it is worth noting that the off-budget status also contributes to the extraordinary growth rates of credit programs.

Does the budgetary treatment of credit programs affect the real economy? I hesitate to say, categorically, that there is no impact, because we economists tend to believe that people act on perceptions. A budget that sends out misleading signals could lead to decisions resulting in real macroeconomic impacts.

Surprisingly, except for the exclusion of loan guarantees from budget authority computation, nothing in the 1974 Budget Act even mentions credit. However, over the years, credit control has become an increasing concern and various attempts have been made to incorporate these concerns into budget resolutions. We have seen, for example, detailed mention in budget resolutions of off-budget spending and targets, albeit nonbinding, for direct loans and loan guarantees at both aggregate and functional levels.

In addition to the desirability of bringing all spending—including credit—into the budget, several proposals have been made to institutionalize much of what has already been done in congressional budget resolutions. One is to incorporate credit ceilings—separately for direct loans and guaranteed loans—in budget resolutions. These could be binding at functional or aggregate levels, or by committee jurisdiction, the latter being analogous to making direct spending binding at the section 302 committee allocation levels.

A second proposal is to make new direct loans and new guaranteed loans subject to levels specified in appropriation acts. Currently about 30% of direct loans and 70% of loan guarantees are limited by appropriation acts.

A third proposal is to explicitly provide, in a revised budget process, for the reconciliation of credit programs.

Incorporation of these ideas would go a long way to correcting the problems I have noted. The major correction, however, will only come about with the incorporation of the true subsidy costs of federal credit programs. The current budget procedures of excluding loan guarantees, except for their defaults, and including direct loan activities on a net basis is inadequate. At this point in time, the theoretical and practical framework for accomplishing is not fully developed, though it should be available soon.

PRESENTATION BY SANTE ESPOSITO, COUNSEL FOR BUDGET LAW AND ECONOMIC MATTERS, HOUSE PUBLIC WORKS COMMITTEE

The Impact of the Budget Process on Authorizing Committees

There are only two timetable requirements in the Budget Act which address responsibilities of authorizing committees: the March 15 views and estimates report and the May 15 reporting deadline.

MARCH 15 VIEWS AND ESTIMATES REPORT

Section 301(c) of the Budget Act requires that by March 15 of each year all standing committees of the House and Senate (i.e., authorizing committees for purposes of this discussion) are to submit their views and estimates with regard to all budget-related matters within their jurisdiction to the Budget Committees.

The intent of this section is two-fold: to allow authorizing committees to contribute to the formulation of the budget resolution, and to give the Budget Committees some guidance of what legislative matters are being contemplated for the next fiscal year.

The table below provides a general overview of the legislative history of section 301(c). Originally, only budget-related committees—appropriation and taxing committees—were required to submit views and estimates reports. However, owing to the importance placed on these reports, the framers of the Budget Act decided to require submission by all committees.

MARCH 15 REPORTS

H. Rept. 93–147 (Joint Study Comm.)	H. Rept. 93–658 (House rules)	S. Rept. 93–579 (Senate Gov't Ops.)	S. Rept. 93–688 (Senate Rules/ Adm.)
No provision	Prior to Mar. 1, the appropriations and tax committees, as well as the Joint Economic Committee [JEC] and the Joint Committee on Internal Revenue Taxation [JCIRT], shall submit their views and recommendations to the Budget Committees [BC's].	On or before Apr. 15, the JEC shall submit a report, and the JCIRT, appropriations, and taxing committees shall submit views and estimates, to the BC's.	On or before Apr. 1, the JEC shall submit a report, and each standing committee and the JCIRT shall submit views and estimates, to the BC's.
	Optional for other committees.	Optional for other committees.	

Note.—Public Law: On or before Mar. 15, the JEC shall submit a report, and each standing committee and the JCIRT shall submit views and estimates, to the BC's (sec. 301(c).)

In addition, the language and the history of the Budget Act makes it clear that the estimates contained in the March 15 report are not binding either on the authorizing committees or the Budget Committees.

Two important issues, however, were dropped in the final conference report on the Budget Act. One was the requirement that the Budget Committees publish in the report accompanying the budget resolution the views and estimates of the various committees. The other was the requirement that the Budget Committees explain their actions with respect to the recommendations.

The evolution of the congressional budget process over the last eight years has had a real effect on the March 15 report, specifically with respect to formality, timing and scope.

In the early years of the process, March 15 reports were submitted, for the most part, on an informal basis. Seldom were formal committee meetings held to address the issue. Seldom, if at all, were reports voted on in committee. Rather, views and estimates reports were usually done in letter form and submitted to the Budget Committees under the signature of a committee chairman or the leadership of the committee. However, in more recent years, the trend has been toward a more formal approach regarding consideration and submission of the report.

In part, the language of section 301(c) supports this by requiring that committees "shall submit." Legislative intent affirmed the desire for more formal action, the argument being that this would force an entire committee membership to focus on its spending issues.

On the other hand, the movement toward formality has heightened political concerns. The March 15 report is now the first formal economic and budgetary decision Members pass on. Political considerations become an issue as matters are discussed within committee and an official report sent to the Budget Committees.

In addition, over the past few years, the timing of the March 15 report has become an issue of growing concern. Budget revisions proposed by the Administation; major revamping as witnessed by proposed changes in the Departments of Education and Energy;

and delays in receiving Budget Committees' guidelines have tended to slow down the process.

With respect to the issue of scope, the process is confusing. Section 301(c) requires that committees address funding levels for the next fiscal year. However, both on a voluntary basis or by Budget Committee request (with the requirements changing from year to year), committees comment on such matters as out-year funding, amounts, level of credit activities, etc.

In a very real sense, the authorizing committees view the March 15 report requirement as a "damned if you do and damned if you don't" situation. If a committee doesn't file a March 15 report, or if it isn't very specific and conclusive in it, the feeling is, rightly or wrongly, that the committee forfeits its right to comment on program funding levels.

On the other hand, if a committee does file a March 15 report, there is some real skepticism about whether those views and estimates are, in fact, used in the formulation of the budget resolution.

In order to have an effective budget process there must be some interaction between the authorizing and Budget Committees. How you achieve that is the critical question.

Some argue for strengthening the current views and estimates requirement by expanding, legislatively, the scope of section 301(c); by requiring publication of reports; and by imposing on the Budget Committees some degree of accountability.

Conversely, some argue for insuring interaction between the authorizing and Budget Committees through other means: requiring that Membership of the Budget Committee be composed of representatives from each of the authorizing Committees, or some other means of formal consultation.

MAY 15 REPORTING DEADLINE

Section 402(a) of the Budget Act requires that committees report out, on or before May 15, bills which authorize funds for the next fiscal year. Three technical issues pertaining to this requirement are worth noting: joint versus sequential referrals, 402 waivers, and direct versus indirect authorizations.

When the framers of the Budget Act drafted the section 402(a) language, they did not address the issue of joint versus sequential referral and the implications each would have on May 15 reporting requirement.

The basic parliamentary rule is that, in the case of a joint referral, all committees have to meet the May 15 deadline unless it can be demonstrated that the authorization portion of the bill falls exclusively under the jurisdiction of one of the committees. If so, that committee, and only that committee, has to meet the May 15 requirement.

In the case of sequential referral, only the committee of original jurisdiction has to meet the May 15 requirement.

The language of the Budget Act does not talk about this distinction. It is something that has evolved through the years in the form of precedents. Therefore, to avoid confusion, some have suggested that in keeping the May 15 requirement or some reporting deadline requirement, language be considered to deal with this

issue so that all members would know precisely what would happen in a given referral situation.

With respect to waivers, there are two types: technical and emergency waivers. Emergency waivers are those waivers which permit a bill to come to the floor which is in violation of section 402(a). These involve situations where a committee has not met the May 15 requirement, but it contends that emergency conditions dictate support for a waiver of 402(a) so that the bill can come to the floor. In other words, if a bill is reported after May 15 which authorizes funds for the next fiscal year, and a waiver of 402(a) is provided, that is an emergency waiver.

There are two types of technical waivers. One is where the committee has cured the defect by committee amendment when the bill is reported out.

For example, in dealing with an FY 1982 authorization bill, the committee, in markup, strikes out everything after the enactment clause and makes the authorization effective for fiscal year 1983. They do that on May 15 in order to comply with Sec. 402(a). The Rules of the House, however, provide that a point of order would still lie against the bill as introduced. Since the bill as introduced contains an FY 1982 authorization and since the bill was not reported out by May 15, 1981, a waiver would be necessary.

Another example of a technical waiver is where the committee comes before the Rules Committee and agrees to offer a floor amendment to cure the reporting defect.

Some have argued that any reform of the May 15 reporting requirement should address the situation where a point of order lies against the introduced bill.

Section 402(a) applies to indirect as well as direct authorization. To many, the distinction is confusing. A direct authorization is clear on its face ("there is authorized to be appropriated"); an indirect authorization is some statutory language which in and of itself would support an appropriation. Ignorance of and confusion over the latter have heightened the waiver issue.

Lastly, it should be noted that the May 15 requirement is the only Budget Act point of order provision that does not include the word "amendment" in it. It does so in order to protect a member who wishes to offer a floor amendment to raise the authorization level for that fiscal year after May 15. However, in doing this, it has also created a loophole. The loophole pertains to action in committee that is done in the form of an amendment. If in markup on a bill a substitute is offered, that substitute amendment escapes the 402(a) requirement.

To address this situation, some have suggested that the words "committee amendment" be included in section 402(a)—not the word "amendment", for that would preclude members from acting on the floor.

AGGREGATES VERSUS LINE ITEMS

The legislative history of the Budget Act makes clear that the intent behind the first budget resolution is that it be a target resolution; i.e., a projection of Federal spending for the next fiscal year

and a guideline for Congress by which spending bills would be measured as they work their way through the legislative process.

It is interesting to note in the debate on the Budget Act that there were some statements made regarding aggregate versus line-item budgeting. Congressman Bolling, who was the manager of the Budget Reform Bill on the House floor, said that: "The intent was that the budget resolution not get into particular programs, agencies, appropriations, or projects. To do so would destroy the utility of the congressional budget process as an instrument for making national economic policy."

This position has been reaffirmed since adoption of the Budget Act in markup by the Budget Committees and on the floor during consideration of budget resolutions.

Notwithstanding this, we have witnessed in recent times a trend towards more details in formulation of budget resolutions. This can be attributed to a number of factors: the process has become more sophisticated in the last few years; Members are asking more and more detailed questions; and staffs are becoming more knowledgeable and doing a greater analysis of those factors which underly a given budget resolution.

As a way of explaining this trend, two programs are outlined in the table below, "Line Iteming Examples"—mass transit and Federal aid to highways. Mass transit is an appropriated program. It goes through the normal authorization process, subject to subsequent appropriations.

Federal aid to highways is a direct spending program. It exemplifies a program that an authorizing committee, in this case the Public Works Committee, has the direct spending jurisdiction over. The Public Works Committee writes the law and sets the level of spending, while the Appropriations Committee merely carries on a pro forma activity (not including imposition of obligational ceilings).

In trying to explain line-item budgeting as it affects these two examples, benchmarks in the budget process have been targeted, starting with the March 15 report.

LINE ITEMING EXAMPLES

	Appropriated program (mass transit)	Program under direct spending jurisdiction of authorizing committee (Fed-aid to highways)
March 15 report	$4.15 billion. Source: House Public Works Commiitee. "Fiscal year 83 Views and Estimates Report." p. 31.	$12.3 billion. Source: Same, p. 28.
Budget Committee markup document.	$3.75 billion. Source: Committee on the Budget, "Chairman's Recommendations," p 104..	$9.265 billion. Source: CBO backup data by budget account.
Floor consideration (House)	$3.494 billion. Source: CBO backup data by budget account.	$9.265 billion. Source: Same.
Conference consideration	House—$3.494 billion. Senate—$3.725 billion. Source: CBO "Five-Year Projections," June 14, p. 334 (see attached).	House—$9.265 billion. Senate—$9.265 billion. Source: Same, p. 324.
Sec. 302(a) allocations	Final conference agreement (assume $3.494 billion) would appear in aggregate function 400 allocation to Appropriations Committee. Source: Cong. Record, June 21, H3679.	Final agreement ($9.265 billion) would appear in allocation to Public Works Committee. Source: Same, H3680.

LINE ITEMING EXAMPLES—Continued

	Appropriated program (mass transit)	Program under direct spending jurisdiction of authorizing committee (Fed-aid to highways)
Implications	"Sends signal" about level of appropriations available for program.	In essence, sets program spending level since tied to deferred enrollment.
	Impacts on authorization amount	Encourages further focus on line iteming.
	Influences legislative process (colloquies, etc.).	

In the March 15 report for FY 1983, the Public Works Committee estimated that the mass transit program would be approximately $4.2 billion.

For highways, the Committee estimated $12.3 billion.

In Budget Committee markup, historically and as a matter of practice, the Budget Committee enters markup with what is called the "chairman's recommendation", which is an entire budget put together to serve as the basis for discussion in Budget Committee and for amendments that are to be offered. The Budget Committee markup document indicated for mass transit $3.75 billion, and for highways $9.3 billion.

The chart below is taken from the Budget Committee markup document under function 400, with an arrow next to the urban mass transit program. Note that the document contains a level of funding, actual in 1981, estimate for 1982 and 1983, and a freeze level in 1983, which was the level assumed in the resolution. Note further the $3.75 billion for mass transit under the freeze level column.

FUNCTION 400: TRANSPORTATION—EFFECT OF FREEZE IF APPLIED UNIFORMLY TO MAJOR DISCRETIONARY PROGRAMS

[In billions of dollars]

Program	Fiscal year 1981 actual		Fiscal year 1982 program level		Fiscal year 1983 CBO baseline		Fiscal year 1983 April budget request		Fiscal year 1983 freeze level	
	BA	O	BA	O	BA	O	BA	O	BA	O
Northeast corridor improvement project	0.35	0.20	0.15	0.30	0.20	0.25	0.10	0.20	0.15	0.25
Amtrak	.90	.85	.75	.65	.80	.75	.60	.60	.75	.70
Urban mass transportation	4.65	3.85	3.75	3.75	4.00	3.40	3.15	3.15	3.75	3.30
FAA operations	2.35	2.30	2.20	2.25	2.35	2.40	2.35	2.35	2.30	2.35
FAA facilities and equipment	.35	.25	.25	.25	.30	.25	.75	.30	.25	.25
NASA programs	.59	.55	.45	.55	.50	.55	.50	.50	.50	.50
Coast Guard operating expenses	1.35	1.30	1.50	1.50	1.45	1.50	1.45	1.40	1.50	1.55
Coast Guard acquisition, construction, improvement	.35	.20	.70	.30	.75	.40	(1)	.30	.70	.40
MARAD ship construction	.15	.20	(1)	.20	.05	.05	.....	.05	.05	.05
Boat and yacht user fee							−.20	−.20	−.20	−.20

[1] Less then $50,000,000.

In the "Line-Iteming Examples" table, under Budget Committee markup document, the $9.265 billion for highways was not a specified program. However, CBO does, as a matter of course, prepare backup data for budget resolution markups by budget accounts which do include a specific dollar amount for each program. The CBO backup indicated approximately $9.3 billion for the Federal aid highway program.

The next activity identified in the table is floor consideration of the budget resolution. It was indicated again through CBO backup data that the level of funding assumed for mass transit was $3.494 billion and $9.3 billion for the Federal aid to highway program. It is the case that once the Budget Committees get to conference on the budget resolution, one can find a funding level in the House and the Senate-passed resolution for each of these programs as well as all others.

The table below is an example of the kinds of detailed information that serves as backup material and that, as indicated by the arrow, includes funding levels for specific programs.

Note the House and Senate-passed assumption for the mass transit program and the difference between the two.

This is information which is available to the committees when they go to the floor on the resolution, and available to Members and staff to answer questions about what level of funding is assumed in the resolution for a particular program.

5-YR PROJECTIONS SYSTEM

	1982	1983	1984	1985
Railroad research and development:				
House passed:				
Budget authority	30,000	20,125	20,125	20,125
Outlays	43,187	20,048	19,715	20,125
Senate passed:				
Budget authority	30,000	30,125	30,125	30,125
Outlays	43,187	22,048	27,715	30,125
Difference B minus A:				
Budget authority	0	10,000	10,000	10,000
Outlays	0	2,000	8,000	10,000
Commuter rail transfer:				
House passed:				
Budget authority	60,000	0	0	0
Outlays	25,000	35,000	0	0
Senate passed:				
Budget authority	60,000	0	0	0
Outlays	25,000	35,000	0	0
Difference B minus A:				
Budget authority	0	0	0	0
Outlays	0	0	0	0
Urban Mass Transportation Administration—Urban mass transportation fund:				
House passed:				
Budget authority	3,494,738	3,494,738	3,494,738	3,494,738
Outlays	3,765,680	3,279,400	3,233,050	3,170,750
Senate passed:				
Budget authority	3,494,738	3,725,738	3,725,738	3,725,738
Outlays	3,765,680	3,303,400	3,291,050	3,274,750
Difference B minus A:				
Budget authority	0	231,000	231,000	231,000
Outlays	0	24,000	58,000	104,000

The "Line-Iteming Examples" table addresses next the Section 302 allocations. The final conference agreement on the budget allocated the $3.5 billion for mass transit to the Appropriations Committee under Function 400. Because mass transit is an appropriated program, one is not going to be able to find in a conference report or statement of managers anything specific enough to identi-

fy the level of funding for mass transit. It is included in the entire amount allocated to the Appropriations Committee for that function.

However, in the next column, the Section 302 allocation of funding for the Federal aid to highway program appears with the Public Works Committee, because it is the committee of spending jurisdiction.

To the extent that an authorizing committee has very few direct spending programs, it becomes apparent that assumptions are being made in a budget resolution with respect to those programs.

For example, the total allocation to the Public Works Committee is approximately $5 billion. Because of the committee's limited spending jurisdiction, this would apply to three programs: the highway program; the aviation program; and user fees.

The last issue on the bottom of the "Line-Iteming Examples" table deals with the implications. There are different but sometimes interlocking implications with respect to both kinds of programs.

For an authorized program like mass transit, the levels assumed in a budget "send signals" about the level of appropriations available for a program. In addition, the authorization process is impacted to the extent that amendments are offered in markup on authorization bills, bringing the level of authorization in line with the levels assumed in the budget resolution, regardless of the fact that the resolution addresses spending issues.

Also, debate and colloquies on budget resolutions requiring authorized funding levels—like the Motor Carrier Rate Commission colloquy—has become a common occurrence.

For a direct spending program like Federal aid to highways the implications are different. Budget resolutions have included deferred enrollment, which provides that any bill which exceeds a committee's allocation can't proceed to the President to be signed into law.

This becomes very critical in a direct spending program like highways, because if one looks at the Public Works Committee's 302 allocation, one sees only three programs: highways, aviation, and user fees. Under deferred enrollment, any bill that comes to the floor that exceeds the amount of money allocated for those three programs can't proceed to be signed into law.

In addition, in this specific case, of those three programs, one of them, user fees, is a minus $400 million, on the assumption that user fees would be increased. Therefore, all so-called "plus" bills could be deferred pending adoption of a "minus" bill.

Before addressing how one deals with aggregate versus line-item budgeting, it is important to note that there may be no way that one can ensure that a budget process will function at the macro level. By the very nature of the process, one may have to focus on line items on the theory that a budget is made up of parts and the parts have to be identified.

In addition, there may be as many good reasons for line-item budgeting as there are for a macro approach, and these should be considered.

Notwithstanding this, some have suggested ways, if not for insuring, then at least for mimimizing, the extent to which a budget process focuses on line item details.

One is to amend the existing budget resolution structure to restrict reconciliation to the second budget resolution.

It has been argued that reconciliation was never intended to be in the first budget resolution, and certainly not to deal with the issue of entitlements.

All one has to do is to take a look at the reconciliation process. It directs committees to reduce Federal spending but the instructions are not program specific.

The Budget Committees have no authority to dictate what programs are to be reduced, and it is clearly within the jurisdiction of the committees to determine that. Reconciliation, as a process, has a lot of drawbacks in achieving real entitlement reform.

Therefore, if one really wants to achieve entitlement reform, perhaps one ought to consider some way other than through the current reconciliation process. Reconciliation is not the way to do it. It was never designed to deal with the entitlement issue.

A second suggestion would be to restrict deferred enrollment to bills which exceed the first resolution aggregate totals.

A third suggestion is to limit floor amendments to complete substitutes.

A fourth suggestion is to limit budget resolutions to aggregates only.

Fifth, to repeal the so-called elastic clauses in the Budget Acts. These sections have been the basic authority that the Budget Committees have used to include matters like credit budgeting, point of order for failure to file 302 reports, deferred enrollment on the basis of section 302, etc.

Sixth, to make the 302 allocations at the aggregate level similar to the approach used by the Senate.

Seventh, to restrict the resolution report and statement of managers to a discussion of general economic issues.

Eighth, to provide for an aggregates only resolution with point of order against bills which violate the totals.

Ninth, to implement a budget package plan.

There have also been suggestions to minimize line-iteming during floor consideration of the budget resolution, such as the use of substitute amendments, specific dollar amounts, transfer amendments and deminimus rules.

Also suggested for consideration is voting the aggregate totals first.

Lastly, some have suggested minimizing or limiting access to budget data so as to discourage line-iteming.

EVOLUTION OF THE CONGRESSIONAL BUDGET PROCESS

Congressional budgeting, before the Budget Act, can be characterized as follows: in terms of timing, there was little or no Congressional spending action before mid-March.

From 1950 to 1972, except for one year, the President's Budget did not come to Congress until late January or early February. Upon receipt, there was no systematic or in-depth analysis of it, as

is done today by CBO or the Budget Committees. Rather, the actions begun by Congress in mid-March usually had to do with Appropriation Subcommittee hearings. Also, in terms of organization, there was no single Committee that was responsible for an overview of the budget, and no year-round membership or budget staff available to the Congress.

In terms of spending totals, these were simply products of dozens of separate and often unrelated decisions that were not made in the context of the total budget, or budget plan. Fiscal policy, as we know it today, was, for all intents and purposes, almost non-existent, given the minimal relationship between Congressional spending and issues like surplus and deficits, and economic policy.

With respect to priorities, those were decided on a program-by-program basis, not within the context of an overall budget.

Recognizing procedures that existed at the time, there was a growing need for budget reform owing to a number of factors.

First was the size of the Federal budget and its impact on the economy. In the 50 years preceding 1974, the budget had grown from $3 billion to $300 billion. The budget had been in deficit for 16 of the 20 years previous to 1974, and the debt had increased by over $200 billion in those same 20 years.

In addition, past budget reforms enhanced the role of the Executive Branch. The Anti-Deficiency Act was interpreted by the Executive Branch to allow them to reserve funds which they felt were not needed to carry out specified legislative objectives. Also, the Budget and Accounting Act of 1921 had vested in the President the responsibility for formulating and submitting a budget, and had established the Bureau of the Budget for overseeing the budget process.

Along with all this, the nature and timing of congressional actions were critical. By 1974, 75 percent of the budget had become relatively uncontrollable. About 50 percent of all spending was backdoor spending—spending which avoids the normal appropriation process.

Outlays, for all intents and purposes, were completely uncontrollable since congressional spending addressed the issue of the authority to obligate funds rather than the expenditure of funds. In addition, appropriation bills were seldom enacted by the beginning of the fiscal year.

For fiscal year 1974, no appropriation bill was in place by October 1. In addition, the executive branch increasingly used impoundments not only to defer or delay spending, but to discontinue and eliminate program funding.

Prior to 1974, there were various efforts at Budget Act reform. The Legislative Reorganization Act of 1946 proposed the establishment of a legislative budget to be formulated by a joint committee consisting of members of Appropriations, Ways and Means and Finance.

In 1947, however, Congress could not agree on budget ceilings. In 1948, they adopted ceilings but then ignored them when it came to subsequent spending decisions.

By 1949, the entire process had been abandoned.

In 1950, Congress enacted an Omnibus Appropriation Bill, which included all regular appropriation bills. However, because of the

time, effort and confusion that was associated with that process, it was abandoned the following year.

In 1952, the Senate passed a bill which established a Joint Committee on Budget, and gave it responsibility for overseeing the budget process. However, the House did not take action on that bill.

Twenty years later, when Congress considered the Debt Limit Bill, it provided for the establishment of a Joint Study Committee on Budget Control. Working for a year, it provided recommendations which ultimately led to the adoption of the Budget Act in 1974.

The primary purposes and goals of the Budget Act are worth noting.

First, to assure effective congressional control over the budget process. The Budget Act does this through a number of procedural tools such as points of order, deferred enrollment, 302 allocations.

Second, to provide for congressional determination of the appropriate levels of spending and revenues for the year.

Third, to establish national budget priorities and formulation and debate.

Fourth, to provide order, guidance and information to Congress on national economic and fiscal policy issues.

Lastly, to provide an impoundment control system. Title X does that.

Specific procedures in the Budget Act also address the original intent of the framers.

With respect to budget resolutions, the framers intended that there would be at the least two budget resolutions per fiscal year.

The first resolution would be in the spring; the second in the fall. The first would be non-binding; the second binding. The first would set targets; the second ceilings. The first would set guidelines for Congress, taking into consideration the possibility of subsequent revisions through the authorization-appropriations processes.

In terms of content, the law spells out, as the framers intended, that the resolution would include aggregate levels of spending, spending levels for the functional categories and appropriate matters, as it deemed necessary.

Reconciliation was intended to occur at the end of the congressional budget process after action on the second budget resolution. It was to be a look-back process wherein Congress would compare what it had done in the budget resolutions, with congressional spending to date, and make appropriate changes.

In terms of scope, reconciliation was intended to address changes in laws or bills which provided new budget authority, prior year budget authority, or entitlement authority which was to be effective for the next fiscal year.

The elastic clauses are really two-fold. One deals with matter and the other with procedures. There is very little legislative history on either. With respect to matter, it is a provision which is included in Section 301 to allow germane matters to be included in the budget resolution.

In terms of procedure, the legislative history of Sec. 301(b)(2) indicates that the intent was to deal with changes in spending and

budget authority matters, and not authorization issues, jurisdiction of committees, or permanent changes in congressional procedure.

The timetable in the Budget Act was designed to provide for expeditious consideration and adoption of budget resolutions; to ensure input from the President and the committees; and to ensure adoption of appropriation bills before the beginning of the fiscal year.

A way to understand the evolution of the budget process is to view the vehicle for decision-making—the budget resolution. The table at the end of this presentation provides information on the various resolutions.

The first column represents budget resolutions. All conference reports on resolutions since the beginning of the process, including the resolution which just passed the House, have been included. "F" means first, "S" means second, and "T", means third concurrent resolution on the budget for a fiscal year.

The Budget Act requires that the first resolution be reported by April 15. There is no requirement in the Budget Act for reporting of a second resolution or any revisions to that resolution by a date certain. Included in the second column is the date by which the first resolution was reported in the House.

The third column is the adoption date. The Budget Act requires that the first resolution be adopted by May 15 and the second resolution by September 15. The third column addresses budget aggregates. These represent the total level of budget authority, revenues, outlays, public debt and deficit which are required by section 301 to be included in budget resolution.

The next column is functional categories which are also required by section 301 to be included as part of a budget resolution.

The next column addresses revised resolutions. section 304 permits permissible revisions to the most currently agreed upon budget resolution.

The next column is sense of the Congress language.

Multiyear projections appear next. Both these and sense of the Congress language are not specified in the Budget Act. They have been included in budget resolutions under the 301(a) language, which allows for inclusion of such other matters as may be appropriate.

The next column is reconciliation which is to occur at the end of the process after the second resolution.

Deferred enrollment is the next column. It is an option provision included in the Budget Act.

The next column is credit budget. There is no provision in the Budget Act for its inclusion.

The last column is points of order provisions which are not provided for in the Budget Act, but fall under the procedural elastic clause.

Starting with F. Res. for fiscal year 1976, note that it was reported and adopted the day before the requirement.

That resolution included aggregates only.

The second resolution for that year has no report date because there is no requirement on reporting the second resolution. It was adopted in December and includes aggregates only.

39-199 O - 84 - 5

In addition, that resolution was the first resolution that had reconciliation in it. It was also the last second resolution that had reconciliation in it.

The third one is the F. Res. for fiscal year 1977, which was reported and adopted, as indicated. It also included aggregates and, for the first time, functional categories.

The same thing for the second resolution.

The third resolution for fiscal year 1977 included aggregates and functional categories. It was the first case of a revision of a second resolution. It was also the last case of separate second and third resolutions. We have since adopted the practice of folding the third or revised second resolution with the first resolution for a fiscal year.

The first resolution for fiscal year 1978 included aggregates, functional categories, and a revised third resolution for fiscal year 1977. It also, for the first time, included sense of the Congress language.

The second resolution for fiscal year 1978 included aggregates and functional categories only as did the first and second resolutions for fiscal year 1979.

The first resolution for fiscal year 1980 included aggregates, functional categories, a revision of the second resolution and, for the first time, multiyear projections at the aggregate level only.

The second resolution for fiscal year 1980 included aggregates, functional categories, sense of the Congress language, and multiyear aggregates. In addition there were functional breakdown of multiyear projections in the Senate only. There was also reconciliation in the form of sense of the Congress language.

The first resolution for fiscal year 1981 included aggregates, functional categories, a revision resolution, sense of the Congress language, multiyear projections at the aggregate and functional levels in both Houses; reconciliation; deferred enrollment for the first time, and credit budgets at total levels only. As a matter of background, this is the budget resolution that was brought up in the last year of the Carter Administration. The attempt here was to try and balance the budget for fiscal year 1981.

The second resolution for that year reaffirmed that resolution, with most of the same subject matters included. One new provision was the point of order provision. That was against adjournment.

The first resolution for fiscal year 1982, included aggregates, functional categories and everything else except for a point of order provision.

The second resolution for fiscal year 1982 reaffirmed the first resolution with most of the same subject matters included.

The first resolution for fiscal year 1983 included every subject matter listed. In addition to that, in the credit activity, it moved from totals to functional breakdowns and added to it certain enforcement matters—points of order against credit actions; requiring loan guarantee bills be subject to the appropriation process; and requiring committees file 302 reports on the basis of credit actions.

The first resolution for fiscal year 1984 is included on the basis of House action. It contains aggregates, functional categories, revises last year's sense of the Congress language, includes multiyear projections, reconciliation, deferred enrollment and credit on the basis of totals and functions.

In the subsequent pages in "Budget Resolutions: Timing and Content" components of the table are addressed in terms of their evolution in the process.

Reconciliation first appeared in the second resolution for fiscal year 1976, in the form of a directive to the taxing committees to decrease revenues. It was $6.4 billion. The primary purpose at that time was to extend the 1975 tax cut and to raise additional revenues through tax reform.

The second resolution for fiscal year 1980 had sense of the Congress language calling on the authorizing committees to achieve savings that were assumed in the first resolution. The language was not binding.

There was also a provision in that resolution which required entitlement committees to address recommendations for changes in their following March 15 Views and Estimates Report.

It is interesting to note that that second resolution for fiscal year 1980, as reported by the Senate Budget Committee, did contain actual reconciliation instructions. However, those instructions were dropped in conference and no specific instructions appeared in the final Conference Report.

The first resolution for fiscal year 1981 contained reconciliation instructions involving eight House and ten Senate Committees. It has specific deadlines for completing action and a directive to the Appropriations Committee to reduce spending in the current year.

The changes were single year changes, in permanent as well as entitlement programs. Reconciliation was included in this first resolution for the first time under the authority of section 301(b)(2) of the Budget Act.

That section provides for inclusion of "any other procedures which are deemed necessary and appropriate to carry out the purposes of the Act". The purpose was to balance the budget for fiscal year 1981.

The first resolution for fiscal year 1982 included reconciliation instructions, but, for the first time, for the outyears as well as for the ensuing fiscal year. In addition to that, directives to reduce authorization levels as well as spending levels were included.

Fifteen House and thirteen Senate Committees were affected.

Reconciliation last year, and as reported this year by the Budget Committee, includes reductions in entitlements and revenue increases. The language is binding for the next fiscal year, but not beyond, and the number of committees are indicated.

With respect to enforcement provisions, in the first resolution for fiscal year 1981, deferred enrollment was included for the first time. It has appeared in four budget resolutions, including the resolution just passed by the House.

In the first resolution for fiscal year 1981, deferred enrollment was structured on the basis of holding bills at the desk which exceeded a committee's 302(a) allocation as well as the committee's 302(b) subdivision.

Conference reports were exempt from deferred enrollment in that resolution.

The second resolution for fiscal year 1981 had a point of order provision against consideration of the adjournment resolution until reconciliation had been completed.

The first resolution for fiscal year 1982 marked the second time that deferred enrollment was included. Again, the benchmark was the 302(a) total allocation as well as the committee subdivision.

In the first resolution for fiscal year 1983, there was a point of order provision against indirect loan or loan guarantee bills. They could not be considered on the floor unless funding for those bills was made subject to appropriation acts. Again, that is not a requirement of the Budget Act, and the point of order provision was included under the "such other procedures as are appropriate" clause.

Deferred enrollment was also included for spending bills which exceed total allocations and subdivisions. Exempt from this requirement were 90 percent self-financed trust funds to the extent that there were revenue increases in those trust funds.

There was also a provision in this resolution which made the first resolution a binding second resolution on October 1. There was a point of order provision against consideration of spending bills until committee makes its 302 allocation.

There was a point of order against bills which breach direct loan obligations and loan guarantee commitments, and there was a requirement that committees make 302(b) allocation of credit activity.

In the first resolution that was passed by the House this year, deferred enrollment was again included, but this time on the basis of the 302(a) committee total allocation, not the subdivisions.

There was also a provision making the first resolution binding on October 1 if action does not occur on the second resolution.

An asterisk is included next to those provisions which also were included in the House Budget Committee reported resolution to differentiate what happened vis-a-vis floor amendments or conference action.

The next pages of the table include sense of Congress and related language which has appeared in budget resolutions since 1976.

These include matters dealing with off-budget agencies, indexing Federal programs, regulatory inflation statements, revisions and modification to the Budget Act.

With respect to significant dates in the budget timetable, the Budget Act provides that the President submit his budget to Congress 15 days after Congress convenes.

The Budget Act requires Committees to submit to the Budget Committees by March 15 their views and estimates of spending for programs under their jurisdiction.

May 15 is the date by which committees report authorizing legislation. Section 309 of the Budget Act requires the enactment of all spending bills, within seven days after Labor Day.

For fiscal year 1977, the President's budget was submitted two days after Congress convened, well within the 15-day requirement.

Three bills missed the May 15 requirement and, therefore, required Budget Act waivers.

In terms of the appropriation bills, eight appropriation bills were enacted within seven days of Labor Day, and all thirteen were enacted by October 1.

There were two continuing resolutions for that year.

For fiscal year 1978, the President's budget was submitted 13 days after Congress convened, and all of the committees had their March 15 reports in on time. Thirty-seven bills missed the May 15 requirement; eight appropriation bills were in place by the deadline; nine in place by October 1; four after and three continuing resolutions for that year.

For fiscal year 1979, the President's budget was submitted one day after Congress convened. In terms of the March 15 report, there was one that was late. Twenty-three bills were reported after the 15th of May; one appropriation bill in place by seven days and five by the beginning of the fiscal year; eight after and one continuing resolution.

For fiscal year 1980, seven days after Congress convened, the budget was submitted. All of the reports were in on March 15; eight prior to March 15; forty-three bills needed waivers of the May 15 requirement.

No appropriation bills were in place within seven days of Labor Day; three by October 1, and two continuing resolutions.

For fiscal year 1981, the President's budget was submitted 25 days after Congress convened. The asterisk is to indicate it exceeded the 15-day requirement.

All views and estimates reports were in by March 15; however, as the asterisk indicates, that year the request was that the reports be in by March 7, in which case, five committees did not meet the March 7 request but all met the March 15 deadline. Fifty bills needed waivers of Budget Act (mostly technical waivers) for not meeting May 15. None of the appropriation bills were enacted within seven days; one by October 1; twelve after and three continuing resolutions.

For fiscal year 1982, on the views and estimates report, the March 15 date was pushed back to March 20, and five committees did not meet the March 20th date. Nineteen bills needed waivers. None of the appropriation bills were enacted within seven days of Labor Day; none by October 1; thirteen after; four continuing resolutions.

CONGRESSIONAL BUDGET PROCESS: INTENT AND EVOLUTION

Pre-budget act	Need for reform	Prior budget act reforms	Budget act goals	Budget act procedures
Timing	Size of the budget	Legislative Reorganization Act of 1946.	Effective congressional control.	Budget resolutions: Guidelines, ceilings, and content.
Organization	Past reforms	Omnibus appropriations bill.	Levels of spending	Reconciliation: Timing, and scope.
Spending totals	Nature and timing	Joint Committee on the Budget.	National Budget priorities.	Elastic clause(s).
Fiscal policy	Impoundments	Joint Study Committee on Budget Control.	Order, guidance and information.	Timetable.
Priorities		Congressional Budget Act.	Impoundment control system.	

BUDGET RESOLUTIONS: TIMING AND CONTENT

Resolutions	Reported (Apr. 15; in House)	Adopted (May 15; Sept. 15)	Aggregates	Func. cat.	Rev. res.	Sns. of Cong.	Multiyear proj.	Recon.	Def. enr.	Credit budget	Pts. of order
1. F. Res.; fiscal year 1976.	Apr. 14	May 14	X								
2. S. Res.; fiscal year 1976.	NA	Dec. 12	X (for transition quarter also).					X			
3. F. Res.; fiscal year 1977.	Apr. 9	May 13	X (for transition quarter also).	X							
4. S. Res.; fiscal year 1977.	NA	Sept. 16	X	X							
5. T. Res.; fiscal year 1977.	NA	NA	X	X	1st rev. of 2d res.						
6. T. Res.; fiscal year 1978.	May 3	May 17	X	X	X (rev. T. Res.; fiscal year 1977).	X					
7. S. Res.; fiscal year 1978.	NA	Sept. 15	X	X							
8. F. Res.; fiscal year 1979.	Apr. 14	May 17	X	X							
9. S. Res.; fiscal year 1979.	NA	Sept. 23	X	X							
10. F. Res.; fiscal year 1980.	Apr. 13	May 24	X	X	X		X (agg. only)				
11. S. Res.; fiscal year 1980.	NA	Nov. 28	X	X		X	X (agg.; func. in Senate).	X			
12. F. Res.; fiscal year 1981.	Mar. 26	June 12	X	X	X	X	X (agg. and func. in both Houses)	X	X	X (totals only)	
13. S. Res.; fiscal year 1981.	NA	Nov. 20	X	X		X	X			X	X
14. F. Res.; fiscal year 1982.	Apr. 16	May 21	X	X	X	X	X	X	X	X (totals and func.).	
15. S. Res.; fiscal year 1982.	NA	Dec. 10	X (reaffirmed 1st res.).	X		X	X			X	
16. F. Res.; fiscal year 1983.	May 17	June 23	X (1st became 2d on Oct. 1).	X	X	X	X	X	X	X (totals, func. and enforc.).	X
17. F. Res.; fiscal year 1984. (House passed)	Mar. 21	Mar. 23 (in House)	X	X	X	X	X	X	X	X (totals and func.).	

RECONCILIATION

(1) Second resolution; FY 76 (H. Con Res. 466):

Directed Ways and Means and Senate Finance to submit legislation to decrease revenues. (Sec. 1.)

(2) Second resolution; FY 80 (S. Con. Res. 53):

Sense of the Congress language calling on authorizing committees to achieve savings assumed by the First Resolution for 1980. (Sec. 3.)

Also provided that each committee with jurisdiction over entitlements, when it reported to its respective Budget Committee the following March 15, include recommendations on changes in entitlements to allow Congress to exercise more control over them, on the basis on which the Budget Committees would then report recommendations to its House.

As reported by the Senate Budget Committee, the resolution contained actual reconciliation instructions. Directed reconciliation with respect to spending for FY 80; the report on the resolution argued that such action was necessary because congressional action subsequent to the first resolution had not reflected the spending reductions set in that first resolution. Provision was dropped in conference, and no reconciliation instructions appeared in the second FY 80 budget resolution, as agreed to.

(3) First resolution; FY 81 (H. Con. Res. 307)

Contained reconciliation instructions with respect to revenues, and spending for FY 81; instructions applied to eight House and ten Senate Committees. (Sec. 3.)

Also directed reconciliation with respect to spending for the then current fiscal year (1980), through instructions that the Appropriations Committees reduce spending allowed by previously enacted appropriations.

Resolution contained deadlines for affected committees to report their proposals for the reconciliation bill to the Budget Committees. Similar provisions had been contained in the resolutions originally reported from both House and Senate Budget Committees.

Both Committees' reports stated that reconciliation was necessary in order to achieve a balanced budget; the Senate's made particular reference to the need to restrain "uncontrollable" entitlement spending.

Directing single-year changes in permanent as well as new entitlement programs; envoked authority of sec. 301(b)(2) for inclusion of reconciliation in first resolution.

(4) First resolution; FY 82 (H. Con. Res. 115):

Contained extensive reconciliation instructions covering spending not only for the then current fiscal year (1981) and for FY 82, but also, for the first time, for the subsequent years, or "outyears," of FY 83 and FY 84. (Secs. 301-304A.)

Did not direct any reconciliation with respect to revenues, but separated instructions to authorizing committees into savings totals for authorized programs and for entitlements.

Fifteen House and thirteen Senate Committees affected; reporting deadlines were again provided by the resolution.

Resolutions originally reported by House and Senate Committees had both contained reconciliation instructions of this type.

Envoked authority of sec. 301(b)(2) for inclusion of reconciliation in first resolution.

(5) First resolution; FY 83 (S. Con. Res. 92):

Entitlement, appropriations reductions, and revenue increases for FY 83–84. (Sec. 2.)

Nine House and eight Senate Committees affected.

(6) First resolution; FY 84 (H. Con. Res. 91—House passed):

Entitlement reductions and revenue increases for FY 84. (Secs. 2, 3.)

Seven House Committees affected.

Enforcement and Points of Order

(1) First resolution; FY 81 (H. Con. Res. 307):

Deferred enrollment of spending bills which exceed section 302(a) allocation and/or 302(b) subdivision (filed conference reports exempt); deferred enrollment of bills which reduce revenues by $100 million.[1] (Secs. 8, 9.)

(2) Second resolution; FY 81 (H. Con. Res. 448):

Point of order against consideration of adjournment resolution until reconciliation action has been completed. (Sec. 7.)

(3) First resolution; FY 82 (H. Con. Res. 115):

Deferred enrollment of spending bills which exceed section 302(a) allocation and/or 302(b) subdivision.[1] (Sec. 305.)

(4) First resolution; FY 83 (S. Con. Res. 92):

Point of order against direct loan or loan guarantee bills not made subject to appropriation action. (Sec. 3.)

Deferred enrollment of spending bills which exceed section 302(a) allocation and/or 302(b) subdivision (90% self-financed trust funds exempt to extent of revenue increase).[1] (Sec. 4.)

First resolution becomes binding Second on Oct. 1. (Sec. 7.)

Point of order against consideration of spending bills until committees make sec. 302(b) subdivisions.[1] (Sec. 8.)

Point of order against bills which breach direct loan obligations and loan guarantee commitment totals. (Sec. 9(a).)

Requires committee allocation of new direct loan obligations; new primary loan guarantee commitments, and new secondary loan guarantee commitments. (Sec. 9(b)(2).)

(5) First resolution; FY 84 (H. Con. Res. 91—House passed):

Deferred enrollment of spending bills which exceed section 302(a) allocation.[1] (Sec. 4.)

First resolution becomes binding second on Oct. 1.[1] (Sec. 5.)

Sense of Congress and Related Language

(1) First resolution; FY 78 (S. Con. Res. 19):

Concern expressed over unemployment situation and uncertainty surrounding economic outlook for FY 77 and 78. (Sec. 3.)

(2) Second resolution; FY 80 (S. Con. Res. 53):

Sense of the Congress that there be no third Budget Resolution or any other revision unless justified by significantly changed national or international developments; and that Senate Committees

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[1] Also in House Budget Committee reported resolutions.

make savings assumed in Resolution and that all committees exercise restraint in spending. (Sec. 3.)

Require House Committees to include in March 15, 1980, views and estimates reports entitlement reform recommendations to enable Congress to exercise more fiscal control over these programs. (Sec. 6(a).)

Reaffirm commitment to find a way within the congressional budget process to relate accurately the outlays of off-budget Federal entities to the budget. (Sec. 6(c).)

(3) First resolution; FY 81 (H. Con. Res. 307):

Sense of the Congress to limit off-budget lending activity, on-budget lending activity, and new primary loan guarantee commitments to a sum certain. (Sec. 10(b).)

Sense of the Senate that the President implement a "zero net inflation impact" policy for Federal regulations; and that CBO issue periodic inflation scorekeeping reports. (Sec. 11.)

Request President to review current inflation measures used for indexing Federal programs. (Sec. 12.)

Sense of the Congress that agencies not increase FY 80 rate of obligation in advance of anticipated recission actions. (Sec. 13.)

(4) Second resolution; FY 81 (H. Con. Res. 448):

Sense of the Congress that the President implement a "zero net inflation impact" policy for Federal regulations; and that CBO issue periodic inflation scorekeeping reports. (Sec. 8.)

Sense of the Congress to limit off-budget lending activity, on-budget lending activity, new primary loan guarantee commitments, and new secondary loan guarantee commitments to a sum certain. (Sec. 5(b).)

Recognize time is right for considering revisions and modifications to the Budget Act and that review of the Act should be undertaken without delay. (Sec. 6.)

(5) First resolution; FY 82 (H. Con. Res. 115):

Sense of Congress to limit FFB loan activities, off-budget lending activities, on-budget lending activities, new primary loan guarantee commitments, and new secondary loan guarantee commitments to a sum certain. (Sec. 203(c).)

Sense of the Congress that the President implement a "zero net inflation impact" policy for Federal regulations; and that CBO issue periodic inflation scorekeeping reports. (Sec. 306.)

(6) Second resolution; FY 82 (S. Con. Res. 50):

Sense of the Congress that the President submit a plan to bring interest rates down, to decrease unemployment, and to balance the budget in FY 84. (Sec. 2.)

Sense of the Senate that the Senate Budget Committee report an FY budget that shall balance revenues and outlays. (Sec. 3.)

(7) First resolution; FY 83 (S. Con. Res. 92):

Sense of the Congress that the Federal Reserve Open Market Committee reevaluate its monetary targets. (Sec. 5.)

Sense of the Congress that each budget resolution, beginning with FY 84, list for each functional category, off-budget activities, etc. (Sec. 6.)

Sense of the Congress that reductions in Federal employment should be accomplished through attrition. (Sec. 10.)

(8) First resolution; FY 84 (H. Con. Res. 91, as passed by House):

Sense of the Congress that objectives of the Board of Governors and the Federal Open Market Committee regarding GNP, inflation, and unemployment be reported to Congress. (Sec. 6.)

Sense of the Congress that the Armed Service Committee initiate a thorough review of military retirement programs. (Sec. 7.)

TIMETABLE

	Submission by President		Mar. 15 views and estimates	May 15 report authorization [1]	7 days of labor day	Appropriations action		Cont. res.
	President	Congress convenes				By Oct. 1	After Oct. 1	
Fiscal year:								
1977	Jan. 21	Jan. 19	NA	3	8	13	0	2
1978	Jan. 17	Jan. 4	All by Mar. 15	37	8	9	4	3
1979	Jan. 20	Jan. 19	1 on Mar. 20; others by Mar. 15 (6 prior to).	23	1	5	8	1
1980	Jan. 22	Jan. 15	All by Mar. 15 (8 prior to).	43	0	3	10	2
1981	Jan. 28	Jan. 3 [2]	All by Mar. 15 [3] (17 prior to).	50	0	1	12	3
1982	Jan. 15	Jan. 5	14 after Mar. 15; [4] 1 on Mar. 15; (4 prior to).	19	0	0	13	4
1983	Feb. 8	Jan. 25	All by Mar. 15 (5 prior to).	10	0	1	12	[5] 2
1984	Jan. 31	Jan. 3 [2]	NA					

[1] Indicates number of bills missing May 15 and requiring Budget Act waiver.
[2] Exceeded 15-day requirement.
[3] Mar. 7 request date (5 did not meet)
[4] Mar. 20 request date (5 did not meet)
[5] To date.

PRESENTATION BY LOUIS FISHER, SPECIALIST IN AMERICAN NATIONAL GOVERNMENT, GOVERNMENT DIVISION, CONGRESSIONAL RESEARCH SERVICE

The Authorization Process

This is a presentation about the authorization process. However, not all types of authorization will be treated here. In the presentation on the appropriations process and not here, I discuss backdoor spending reported from authorization committees: contract authority and borrowing authority. In that presentation, I will also talk about entitlements and permanent appropriations which are reported from the authorization committees.

Sante Esposito from the Public Works Committee and I are going to talk about four issues on the authorization process. The first issue concerns the deadlines set in the Budget Act, such as the March 15 reports. How useful are they to the authorizatioin committees and to the Budget Committees in preparing budget resolutions? What might be done to make those reports more useful? That is one issue concerning deadlines.

Another issue is the deadline for reporting authorizations by May 15. Sante and I will talk about the inconsistency of that requirement with House and Senate rules and what might be done to alleviate this tension.

A third issue has to do with authorizations being done on an annual basis. Should they be done on a 2-year basis or multi-year basis? It is something I hope Dale McOmber will comment on because the executive branch throughout the years has always had a lot of concern about the need to testify each year before two or more committees on the authorization process. That is the third isssue: Multi-year authorization, advance authorization, and biennial budgeting.

A fourth issue has to do with the form of the budget resolution, whether it was meant to be confined to aggregates—broad economic issues—or available for details. To what extent did the framers of the 1974 Act anticipate that the budget resolution would get involved in line items within the jurisdiction of authorization committees or appropriations subcommittees? If this task force wants to restrict budget resolutions to more general terms, how can they do it? Sante will be handling that issue and he will talk about the dynamics, the incentives, the drive for details.

By way of introduction, I am going to spend a couple of minutes talking about the authorization-appropriation process. The distinction is not in the Constitution. The Constitution does not mention Appropriation Committees, nor does it divide the legislative process between authorization and appropriation. Those stages evolved over time, and what appears in the House and Senate rules is not always what happens in committee or on the floor.

Members of Congress complain about multiple decisionmaking: Having to do the same thing in detail with different cuts of the budget. In part this reflects the growing complexity of government. If you go back at the start, where you only had three executive departments, War, State, and Treasury, it was a simple matter not to have standing committees. You didn't need that sort of expertise. You would just talk about the bill in general terms, to discuss principles, and then refer it to a select committee, a temporary committee, with instructions to report out.

When it did so and the bill passed, the committee would be disbanded. It was some time before separate standing committees for authorizations and appropriations were established. Initially, on the House side, it wasn't until 1802 that you had a standing Ways and Means committee, and it had jurisdiction over all money matters. There wasn't the distinction we have today. It had jurisdiction over appropriations, over revenues, and over banking, and it kept that jurisdication until the Civil War period.

What happened before the Civil War period, in terms of tension between authorization and appropriation, had to do with appropriation bills becoming very convenient vehicles for attaching legislation. These authorizations might not have had as easy a ride in a separate bill. So in 1837 the House adopted a rule to restrict that practice.

The rule said that you could not appropriate for items unless they had been previously authorized by law. That restriction has been modified over the years until in its present form as House Rule XXI. It states that you cannot report an appropriation bill unless an authorization has been enacted. Moreover, authorizations are not supposed to appropriate.

The two stages were meant to be distinct, but, as you know, they often overlap and cause delay in the appropriations process. This was a principal concern of the framers of the 1974 Act. How much was the authorization process entangling the regular passage of the appropriation bills?

The next stage on authorization-appropriation came with the Civil War, which brought expenditures up to record levels. It was recognized in both the House and the Senate that the existing committees that handled all the money matters, House Ways and Means and Senate Finance, had to have some of their jurisdiction taken away. What they did was to leave both those committees with the revenue jurisdiction but set up two other committees in the House and Senate, one on banking and the other on appropriations.

So you had, starting in 1865 in the House and 1867 in the Senate, Appropriations Committees. They held that jurisdiction for a while, but from the Civil War on, with the economic growth in the country, other committees complained that the Appropriations Committees were too restrictive. They did not allow enough funding for internal improvements, matters like that. So it wasn't very long, by the 1880s before authorization committees began to get jurisdiction to appropriate money. The jurisdiction that House Appropriations enjoyed in 1865 was, little by little, whittled down, lost to authorization committees. There was no real pressure for reform during that period, because the Federal Government had a steady string of budget surpluses.

It wasn't until the end of the 1899s that we began to run into deficits, and deficits continued, setting record levels in World War I. This brought about the Budget and Accounting Act of 1921, which centralized budget-making in the President as far as preparation of the budget. When Congress passed this legislation, it recognized it ought to consolidate matters on its own side. Instead of the fragmented authorization-appropriation process that had existed, in 1920 the House brought all appropriation matters back to its Appropriations Committee once again.

In 1922 the Senate did the same, and those committees retained that jurisdiction for a decade or so until the authorization process, through substantive committees, began to erode the appropriation process.

The Reconstruction Finance Corporation in 1932 was a big step toward borrowing authority—what we call backdoor spending. We will discuss that later. Contract authority is another way to skirt the appropriation process. These were two of the matters that the Joint Study Committee in 1973 looked at, in terms of authorization-appropriation. It studied how much of the jurisdiction of Appropriations Committees had been eroded through borrowing authority, contract authority, permanent appropriations, and entitlements. It also looked at the ability of the Appropriations Committees to report appropriation bills in a timely manner so that you wouldn't have to depend on continuing resolutions. Because Congress had moved from permanent authorizations to multi-year authorizations and annual authorizations, House and Senate rules prevented action on appropriation bills until you had your authorizations out of the way.

There are other trends on authorization bills. They tend to get more and more involved in details. I was just looking at the annual authorization in 1960 for the National Aeronautics and Space Administration. As a public law it was a little over two pages. Let me compare that with the NASA authorization bill passed December 1981 which is about six pages.

Some of the added detail protects the jurisdiction of the authorization committees. Instead of giving research and development a lump sum, as in 1960, the 1981 measure spells out eleven different categories of research and development. There are other things to discover as we look through authorization bills.

In 1960 if the executive branch wanted to depart from the authorization bill, it would have to notify the committees. By 1981 there was a very sophisticated form of prior-approval arrangements with the committees. Before agencies can go beyond certain thresholds they have to get the approval of the committees.

The Authorizations Process

The Constitution provides that "[n]o Money shall be drawn form the Treasury, but in Consequence of Appropriations made by law." The Constitution, however, does not mention Appropriations Committees nor does it distinguish between appropriations and authorizations. Congress did not establish Appropriations Committees until the Civil War period. Prior to that time, the House Ways and Means Committee and the Senate Finance Committee handled both appropriations bills and revenue measures.

Appropriation bills were frequently delayed because legislative items ("riders") were attached to them. To avoid that practice, the House Committee on Rules in 1836 recommended a rule providing that "no appropriation shall be reported in such general appropriation bills, or be in order as an amendment thereto, for any expenditure not previously authorized by law." The House agreed to this rule on September 14, 1837, and after various refinements over the years it has evolved into House Rule XXI.

The legislative process is customarily described as a simple, two-step procedure: authorization of programs as recommended by substantive (legislative) committees, followed by the financing of those programs through measures reported by the funding (appropriations) committees. As a general rule, authorization bills are not supposed to contain appropriations, nor should appropriation bills contain authorizations. Nevertheless, there is substantial overlap between the two processes.

In its report issued April 18, 1973, the Joint Study Committee on Budget Control expressed concern about the increase in the amount of programs subject to annual authorization. One effect was to delay action on the regular appropriation bills, because of House and Senate rules. The Committee also noted that the annual authorization process represented another source of pressure for increased spending. The Committee recommended that except where there is a showing to the Rules Committee of an emergency, legislation providing authorizations "be enacted in the fiscal year preceding the fiscal year to which current appropriations relate."

The Joint Study Committee was also concerned about the growth of "backdoor" spending from the authorizations committees, thus undermining the control of the Appropriations Committees. The subject of backdoors (contract authority, borrowing authority, permanent appropriations, and entitlements) will be covered in Work Session No. 4 on "The Appropriations Process."

Summary of Major Issues

1. Should the May 15th deadline for reporting authorizations be changed to a deadline for House passage or enactment?

To avoid problems with the delay of appropriation bills, the Joint Study Committee recommended that authorizations be enacted a year ahead of time. The House Rules Committee set a deadline of March 31 for the enactment of authorizing legislation, reserving to itself the consideration of waivers for emergency authorizations. As modified by the Senate and conference committee, the Budget Act (in Section 402(a)) adopted a deadline of May 15 for the reporting of authorizing legislation.

This compromise, which satisfied the objections of authorization committees, has created a conflict between the Budget Act and House rules. Under House Rule XXI, regular appropriation bills may not be reported unless authorizations have already been enacted. Under the Budget Act, the requirement for reporting by May 15 means that authorizations are still in the process of being enacted at the time appropriations bills must be reported for floor action. This inconsistency between the Budget Act and House rules creates the need for some kind of accommodation for appropriation bills, usually in the form of a waiver granted by the Rules Committee, a decision to bring the bill to the floor without a waiver (subjecting the unauthorized portions to points of order), or the elimination of the unauthorized programs from the appropriation bill. Moreover, when authorization committees fail to report by May 15, they must seek a Section 402 waiver from the Rules Committee.

This problem of scheduling raises the question whether the House Appropriations Committee should be permitted to report the regular appropriation bills by a time certain, such as June 1, without them being subject to points of order. Such a change would require a modification of House Rule XXI and might stimulate authorization committees to at least complete House action on their bills by June 1 or else authorize a year in advance. A separate issue involves the delay in reporting appropriation bills because of late action on the first budget resolution.

2. Should Congress subject all programs to at least a two-year authorization cycle?

Section 607 of the Budget Act requires the administration to submit to Congress requests for authorizing legislation not later than May 15 of the year preceding the year in which a fiscal year begins. Requests for new program authorizations shall be submitted for at least the first two fiscal years. The conferees explained that the intent of this provision "is to develop a pattern for the enactment of authorizing legislation at least one year in advance of the fiscal year to which it first applies."

Other provisions of the Budget Act encourage a move to advance budgeting. Section 502(c) directed OMB and CBO to study the feasibility and advisability of submitting and acting on a budget a year in advance of a fiscal year. CBO's report favored "advance targeting" and proposed that many Federal programs could be funded by two-year appropriations, "thereby substantially reducing the annual budget preparation workload in the executive branch and the very heavy, but routine, paperwork burden on the Appropriations Committees." OMB generally concluded that the disadvantages of advance budgeting outweighed the advantages, "particularly in that loss of the ability to react to unforeseen situations in the shortrun offsets the gains from control in the longrun." OMB also noted that "[i]t is now difficult to make reasonably accurate forecasts of the economy and the appropriate fiscal policy 1¼ years ahead" (referring to the spring review guidance within the executive branch of the upcoming budget).

The conferees on the Budget Act believed that "in the future it will be necessary to authorize programs a year or more in advance of the period for which appropriations are to be made." They called attention to Section 607 and expected that Congress would develop a pattern of advance authorizations for programs authorized on an annual or multiyear basis. A number of bills have since been introduced calling for "biennial budgeting"—a term that usually means two-year authorizations, two-year appropriations, and two-year resolutions.

There has been no uniform trend toward two-year authorizations since 1974. Some of the annual authorizations have been converted to two-year cycles (such as for the State Department), whereas other programs authorized on a permanent basis have moved to an annual cycle. The main difficulty of moving to a two-year cycle has been the inability of Congress to receive from the administration specific budget justifications for the second year.

3. Should the budget resolution process be confined to macro issues? If so, how?

Pursuant to Section 301(a) of the Budget Act, the first budget resolution provides targets to guide Congress during its subsequent consideration of money legislation. The Joint Study Committee conceived of the first budget resolution as a ceiling which would limit subsequent congressional action on spending legislation. However, changes made by the House and Senate in the Budget Act converted the first budget resolution to a non-binding target. There was also the expectation that budget resolutions would focus on broad economic issues and avoid specific program details.

Although the first budget resolution has target status, underlying assumptions accompanying it (particularly when enforcement provisions are also included) have the effect of not only creating a first resolution which is binding, but one in which line-item details play an important role. Part of the emphasis on funding at the program level is attributable to the evolution of the budget process, growth in sophistication of data support, and a basic reality in budgeting that the totals not only represent the "sum of the parts," but that the parts are clearly identifiable. This emphasis is reinforced by the inclusion of reconciliation and deferred enrollment tied to the Section 302 reports requirements. Reconciliation

not only directs aggregate spending reductions, but, in doing so, corresponding reductions are reflected at the specific program level.

In practice, whether it is an authorization program or a direct spending program under an authorizing committee's jurisdiction, a particular and clearly identifiable level of funding is assumed in the budget resolution. As Members become more aware of this, there is greater interest in offering line-item amendments in Budget Committee markup and on the floor and in engaging in colloquies to establish legislative intent on particular funding levels. All of this raises very serious questions whether it is possible to confine the budget resolution process to macro issues.

4. Should the March 15th reporting requirement for "views and estimates" from committees be repealed? If not, how can the reports be made more useful?

Pursuant to Section 301(c) of the Budget Act, all standing committees of the House and Senate, the Joint Economic Committee, and the Joint Committee on Internal Revenue Taxation are required, by March 15 each year, to submit to the Budget Committees their views and estimates on budgetary matters with regard to all programs within their jurisdiction. The Joint Economic Committee is also to submit its recommendations with regard to the appropriate fiscal policy for the United States.

In the initial formulation of this requirement, mandatory reports were required only from budget-related committees (chiefly appropriations and taxing). The Senate Rules and Administration Committee converted the provision into mandatory reports by all standing committees. This requirement appears in the Budget Act. Each committee possesses some discretion in determining the amounts and legislation to bring to the attention of the Budget Committees.

The evolution of the budget process has affected the March 15th reports, particularly their formality, scope, timing, workload, and impact on the legislative process.

Congress has witnessed a greater degree of formality, particularly on the House side, in the submission of the March 15th reports. Whereas committees in the early years of the process met informally (if at all) and sent their views and estimates in letter form, now they increasingly meet in formal sessions to officially "report" their recommendations to the Budget Committee. As such, Members are being asked to make official decisions very early in the process—oftentimes about issues that must still go through the hearing process, or which the administration has not yet addressed. In addition, there is a very real "damned if you do, damned if you don't" syndrome. There is no sanction for failure to file a March 15th report. However, the general feeling among authorizing committees is that if a committee does not file, it forfeits to the Budget Committee the right and responsibility to express views and estimates about its programs. Conversely, once having filed, there is increased skepticism whether the views are given any consideration in the process of formulating a budget resolution.

Some issues can be raised regarding the scope of the reports. Section 301(c) requires comments on programs for "the fiscal year beginning October 1." However, with the increased concern for fiscal planning, committees are being asked to comment on subsequent

fiscal year spending as well. Additionally, committees are asked to comment on credit activities and other items.

4. March 15th reports.

Meeting the reporting deadline is becoming a greater problem. The situation with the March 15th report becomes more acute with a change in administration or when an administration delays submission of its budget for whatever reasons. This may be compounded further when guidance from the Budget Committee is delayed for political, programmatic, or other reasons.

Formality has an important impact on workload and timing. Oftentimes, preparing the March 15th reports absorbs so much of a committee's time and effort that it forces the committee to rush through markup of its legislation in order to meet the May 15th reporting deadline (or leads the committee to miss the reporting deadline).

The March 15th requirement is not without merit, for it was clearly intended as a means by which the authorizing committees would contribute to the formulation of congressional budgets. The task force may wish to consider whether the March 15th reporting process in its current form satisfies that intent.

The Appropriations Process

This is a presentation about the appropriations process. I will talk about three questions on the appropriations process. We're going to start talking about continuing resolutions, how they developed, how they changed, and some of the costs and benefits.

Then, what might be done to speed up the appropriations process? We will present some ideas in that area, which was a key objective of the 1974 Act: speeding up the appropriations process.

The third question is: how much should go through the annual appropriations process? Billions of dollars are provided in permanent appropriations without the need for action each year. Do you want more of those programs funneled through the annual appropriation bills?

On continuing resolutions, I will begin with some general comments. The Budget Act of 1974 was concerned about continuing resolutions for a couple of reasons. State governments were unable to plan their budgets because they could not get their appropriation on time. So there were repercussions at the state and local level. There was also repercussions at the agency level.

What did continuing resolutions do to the ability of agencies to plan? Before they got their regular appropriation bill, there was always the danger that they would spend at too slow a pace—waiting for the regular appropriation bill—and then have to do a lot of speed-up spending, "June buying," at the end of the year. In some cases the opposite problem occurred. Under the continuing resolution, they would spend at a disproportionate rate, at so high a rate, that by the time Congress came around passing the regular appropriation bill, some of the congressional options were removed.

Now, I am going to tick off some other problems which I see as drawbacks to continuing resolutions. First of all, initially they were couched in terms of the principle of minimum funding. Agencies

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were to spend at some minimum funding level until they got their regular appropriation bill.

This is less and less the case today. The continuing resolution, say fifteen years ago, was a fairly simple bill. If neither House passed an appropriation bill, then you would go with the current rate, last year's rate. If the House had passed it, it would be whichever was lower; or if the House and Senate passed the appropriation bill and it hadn't been enacted, then you would go with the House and Senate, whichever was lower.

If you look at continuing resolutions now, you'll see different departments and agencies put under different paragraphs and sections, some of them held to minimum funding, some of them allowed to go at a higher level.

There has always been the opportunity in a continuing resolution to add authorizing language. And there has never been an opportunity to challenge this on a point of order, because a continuing resolution allows you to appropriate and to authorize at the same time. House Rule XXI, although it applies to regular appropriation bills and general supplementals, does not apply to continuing resolutions.

Why is there that exemption? I think part of the reason is that continuing resolutions originally covered a very, very short period of time, a matter of weeks, and no one contemplated what we have at present, that they would run for twelve months. Also, a continuing resolution usually covered just one or two agencies. By definition, it was not a general appropriation bill.

There are examples in my files where there will be a continuing resolution on the floor, supposedly going at last year's rate, and someone will spot something in there of a regular appropriation nature, something that would be in a regular appropriation bill. No point of order can be made against it. This morning I was double checking something. I thought the Labor-HEW appropriation bill had not been passed in fiscal year 1978, and I discovered that it was tucked in a continuing resolution bill in mid-December.

Let me make some other points. Under a continuing resolution in recent years, if a bill has been reported by House Appropriations, it is "deemed" to have passed the House. The same fiction is used in the Senate. This tactic removes the incentive to bring an appropriation bill out early and have it passed on the floor.

In addition to the principle of minimum funding, there was the principle of short duration. The first continuing resolution I know about, in 1876, was for ten days—July 1 to July 10. Later, continuing resolutions extended for weeks and months, but not until the last ten or fifteen years have we seen continuing resolutions that provide funding for twelve months. This is now the trend in continuing resolutions.

There's another issue with continuing resolutions. They invite impoundment for several reasons. One is that you will find language in the reports accompanying a continuing resolution that says this is minimum funding. It tells agencies to go slow on spending, to treat funding levels as ceilings rather than mandatory spending levels. There are conflicting statements in the House and Senate reports, and the House Budget Committee questions whether this type of language is a green light for impoundment.

However, since a continuing resolution initially was for a short period of time, maybe a month or two, there was no apportionment of funds. When you get a regular appropriation bill passed for twelve months, you apportion the funds by quarters or by months. OMB does that for the agencies so they will spend at a steady rate.

The apportionment process was waived for continuing resolutions until people began to recognize that these things are running for so long that they really ought to be subject to the same control on the executive side as regular appropriation bills.

Under a continuing resolution there is a possibility of a double impoundment. If the President wants to delay funds, he could send up deferrals for funds under a continuing resolution. Once the continuing resolution expires, and the regular appropriation bill has passed, he could reimpound funds in the same area. There are opportunities for reimpoundment under the continuing resolution that do not exist under the regular appropriations process.

There is one more uncertainty. Of course continuing resolutions, as we know, threaten the government with shutdown. There are very confusing and conflicting interpretations as to what functions of government may persist if a continuing resolution isn't passed. We've had different interpretations from the Comptroller General and the Justice Department.

Another point, I think, is that many members of Congress are concerned about repetitive budgeting. And it's particularly true here where if you passed your regular appropriation bill, you've pretty well done with it except for supplemental appropriations. But if you don't pass the regular appropriation bill, you get a continuing resolution for a month, month and a half. That expires and you have to do it a second time, a third time, and it starts to color the whole session.

Congress will always need to have some kind of a tool when it comes to the end of a fiscal year and needs an extra week to complete appropriations. That is something quite different from what we're doing now—substituting continuing resolutions for authorizing and appropriating legislation. It's a matter of course for major departments for an entire year.

A lot of delays in the last few years are because we've been without a President's budget in late January. A President's budget comes up as Carter's did in calendar 1980. It's pulled back and reworked. Often in the last few years it's not until March or so that you even have a baseline President's budget to work on.

You've got problems on the Senate side. The last few years on the House side there has been slippage. Legislative materials are put on appropriating bills, for example, abortion riders, and it's really not a penalty to miss your appropriation date. You can write your own continuing resolution.

The continuing resolution used to have a current rate only for programs in operation the previous year. You were not supposed to use continuing resolutions to initiate or resume any budget activity for which funds had not been available the previous fiscal year. Lately that principle has been violated. You now have continuing resolutions covering programs that didn't exist the previous year.

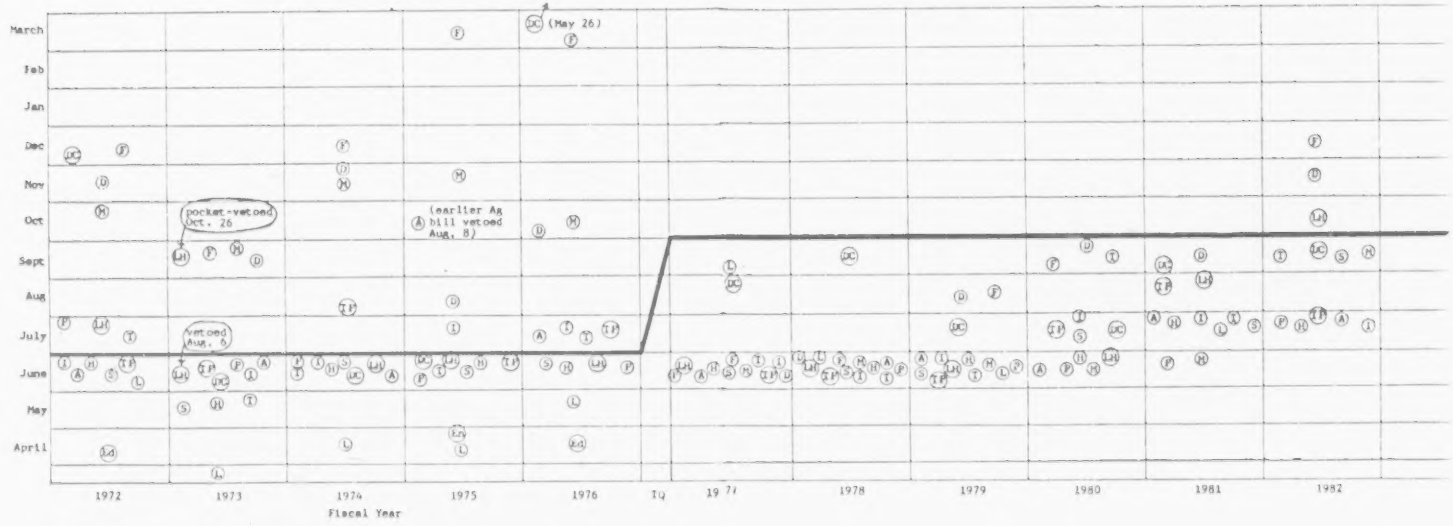
If continuing resolutions are too much of a drawback, one of the proposals that has been discussed is to allow the House Appropria-

tions Committee to report out the regular appropriation bill by a time certain, say June 1, regardless of whether authorizations have been enacted. The second question is, if there is a delay on the budget resolution, could you report the regular appropriation bills anyway?

Chart 1 shows from 1972 to 1982 the dates the House passed the regular appropriation bills. On the left side you see that prior to the Budget Act these appropriation bills fanned out throughout the whole year. From 1977 on, initially there was a good track record. The House passed the appropriation bills in June.

DATES OF HOUSE PASSAGE FOR APPROPRIATIONS BILLS
(FISCAL YEARS 1972-1982)

(A)	Agriculture	(L)	Legislative Branch
(D)	Defense	(LH)	Labor-HEW (or HHS)
(DC)	District of Columbia	(M)	Military Construction
(Ed)	Education	(P)	Public Works (or Energy)
(Sp)	Special energy bill	(S)	State-Justice
(F)	Foreign Assistance	(T)	Transportation
(H)	Housing and Urban Development	(TP)	Treasury-Postal Service
(I)	Interior		

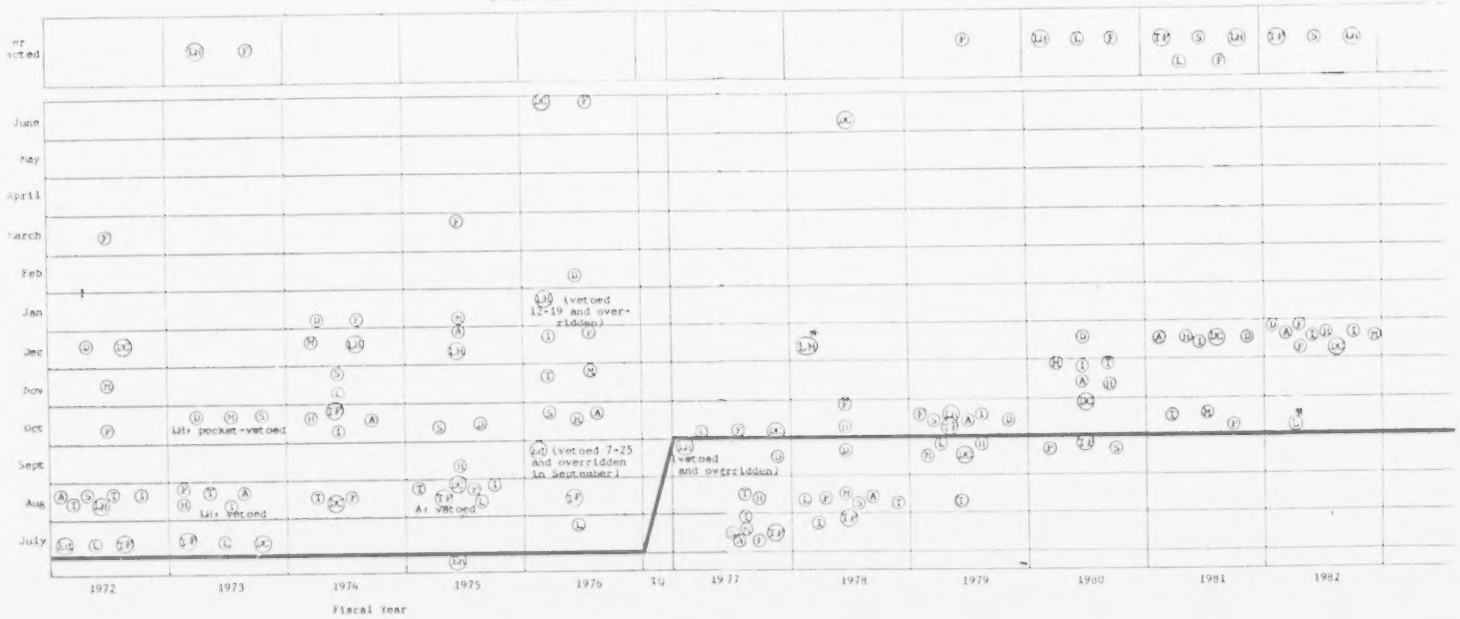


In about the last three years the House has not enacted appropriation bills in June. The schedule is slipping until July and September, and there's no opportunity at all to get your regular appropriation bills in place by October 1.

Now take a look at the second chart showing dates of enactment for appropriation bills. On the top left, you'll see its very unusual not to have an appropriation bill by the time the fiscal year is over. In 1973 you had two of them. One was Labor-HEW, which had been passed and vetoed in August. It passed again and was pocket vetoed in October. In the case of foreign assistance, there was traditionally a fight between the House and the Senate on the level of funding.

DATES OF ENACTMENT FOR APPROPRIATIONS BILLS
(FISCAL YEARS 1972-1982)

- (A) Agriculture
- (D) Defense
- (DC) District of Columbia
- (ED) Education
- (EN) Special energy bill
- (F) Foreign Assistance
- (H) Housing and Urban Development
- (I) Interior
- (L) Legislative Branch
- (HH) Labor-HEW (or HHS)
- (M) Military Construction
- (P) Public Works (or Energy)
- (S) State-Justice
- (T) Transportation
- (TT) Treasury-Postal Service
- * Attached to a continuing resolution



But it was not until the last few years where you see a pattern of not enacting regular appropriation bills at all. In the worst year, 1981, five were never enacted. If you look at 1982, I didn't quite know where to put the legislative branch bill. I had it at the top at first, but since it was stuck in a continuing resolution in early October I finally put it down as enacted. This is becoming a trend where you just put the whole regular appropriation bill in a continuing resolution.

So one of the major objectives in 1974 was to pass appropriation bills on time. The Act extended the fiscal year by three months—going from July 1 to October 1. Yet the record just gets worse.

The question is what to do about it. Under House rules, you may not report out appropriation bills until the authorization has been enacted. But more and more the House waives that rule. If you gave House Appropriation permission to go ahead on June 1 to report their bills, that might put pressure on authorization committees either to get their work done quicker that year or do it a year ahead of time. In reporting out appropriation bills, you would still take into account what the authorization committees were doing in mark-up or reporting out. You'd still have a lot of influence and control by the authorizing committees.

You may also want to allow the Appropriation Committee to report by June 1 regardless of what's happening with the first budget resolution. At the present time, it is too easy for the Appropriations Committee to say we can't report out because we don't have authorizations, or because we don't have a budget resolution. A time certain would eliminate these reasons for inaction.

There are three basic restrictions on the moving of appropriation bills. One is whether or not the authorization bill has been enacted. The second is whether the first budget resolution has been enacted. Third, they are supposed to be enacted by the seventh day after Labor Day. Also, the Budget Act required that all appropriation bills be reported out at one time. In the first couple of years after the Budget Act, the Appropriations Committee found it possible to do exactly that.

Some Members may be concerned about allowing appropriation bills to be reported prior to the adoption of the first budget resolution. They fear that this will undermine the congressional budget process. But if you're concerned about budget discipline and restraining spending, that has not been a problem with the regular appropriation bills. I don't think you will lose any discipline. There's a certain motivation for the Appropriations subcommittees, even today, to stay under the President's budget.

If we decide that continuing resolutions are just too costly to Congress, the agencies, and the state and local governments, you need to have a time certain for reporting out appropriation bills. They can be enacted on time. It was done in the early years after 1974. You got very close to finishing your regular appropriation bills by October 1. Institutionally, Congress can do it.

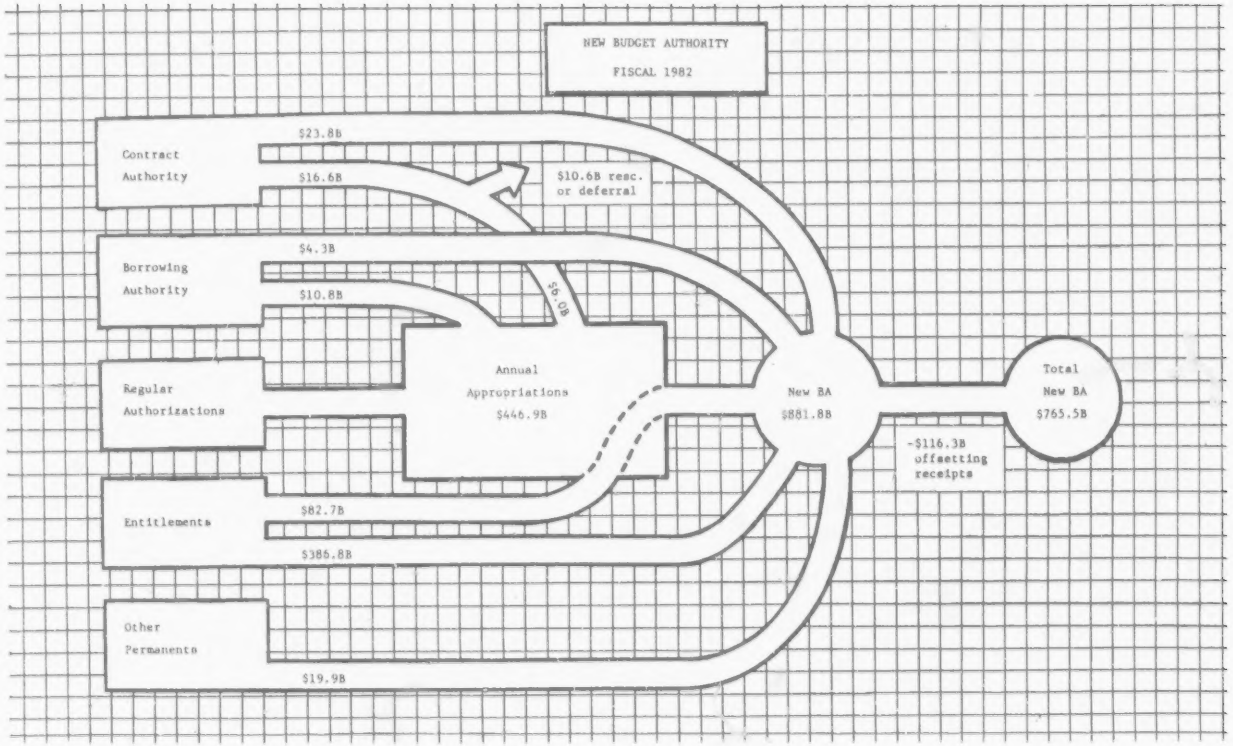
If you do not finish appropriation bills in the House in June, I do not think you have any chance to complete Senate action and conference action to have an act by early October.

Another option is to have an automatic continuing resolution, one that would be triggered on October 1 if Congress failed to enact

the regular appropriation bills. If the level of spending was very restrictive, perhaps at last year's level without an adjustment for inflation, you would put pressure on the Appropriations Committees to move. If the levels were not restrictive, they would lose the incentive to act. But I think it would be very difficult for Congress to reach agreement on an acceptable funding level for a permanent continuing resolution. There would be efforts to treat one area of the budget differently than another.

Before you look at another chart, let me say that in 1974 there was recognition and concern that too much spending bypassed the Appropriations Committees. Many appropriations automatically took effect outside the appropriations process. These are the so-called "backdoors." The Joint Study Committee in 1973 estimated that less than half of the spending for fiscal 1974 would be funded in the regular appropriation bills.

Table 3 puts on one page the different elements of the appropriations process. This is for fiscal year 1982. What I have in the middle of the page is what goes through the annual appropriations process. Just off to the left you will see your regular authorizations bills—NASA, and so forth.


NEW BUDGET AUTHORITY
FISCAL 1982
Contract Authority
$23.8B
$16.6B
$10.6B resc. or deferral
Borrowing Authority
$4.3B
$10.8B
$6.5B
Regular Authorizations
Annual Appropriations
$446.9B
New BA
$881.8B
Total New BA
$765.5B
-$116.3B offsetting receipts
Entitlements
$82.7B
$386.8B
Other Permanents
$19.9B

Above on the left side you have your two old backdoors: contract authority and borrowing authority. Contract authority allowed agencies to enter into obligations in advance of appropriation. To cover those obligations, you had to appropriate funds at a later date, or what was called a "liquidating" an obligation. These appropriations were mandatory.

Borrowing authority was a second backdoor. You allowed agencies, through the Treasury or on their own, to borrow money from the public to set up a revolving account. With contract authority and borrowing authority, you could circumvent entirely the annual appropriations process. What the 1974 Budget Act did was to subject all future contract authority and borrowing authority to the appropriations process so that in the future they amounted to just a regular authorization that required funding through the appropriations process before agencies could obligate money.

Notice that some of these backdoors circumvent the appropriation process while others depend on annual appropriations. In the case of contract authority, the amount scheduled to be appropriated is $16.6 billion. Some of that the President recommended for rescission. The arrow going off to the side reflects the amount in the pending supplemental bill.

So those are your backdoors, contract authority, borrowing authority, some of it still of a permanent nature bypassing appropriation, some going through.

One question for this task force is how much of existing backdoors do you want to funnel through the annual process of appropriation?

Of the contract authority that's permanent, the $23.3 billion, $15.3 billion is used for military sales, Foreign Military Sales. Another big chunk is $7.8 billion for highways. That is out of the Highway Trust Fund.

Of the $16.6 billion that has to be appropriated, almost all of that is the subsidized housing program. A substantial amount was rescinded. Budget authority has already been terminated, around $4 billion.

For borrowing authority, if you look at what skirts the Appropriations Committees, the $4.3 billion, $1.6 billion is in TVA. $874 million is in the Farmers Home Administration. $1.2 billion is Ginny Mae, the Government National Mortgage Association.

For the $10.8 billion channeled through the annual appropriations process, $4 billion is Export-Import spending. Another big chunk is $5 billion for the Commodity Credit Corporation, the price support programs.

The next handout covers entitlements. $82.7 billion has to be annually appropriated. I think that's a little on the small side and there is something probably getting closer to $100 billion. The line is perforated, as it cuts through the rectangle for annual appropriations, because there is no discretion on the part of the Appropriations Committees. They appropriate whatever is necessary.

Handout 4 is a list of those entitlements that are current, that have to be appropriated each year. These figures come from CBO.

Entitlements (current BA) fiscal 1982

I. Retirement and disability:	
Defense retired pay	$14,938,315,000
Defense retired pay	97,685,000
Coast Guard retired pay (DOT)	279,000,000
Black lung disability trust fund (DOL)	770,000,000
Special benefits for disabled coal miners (HHS)	1,098,765,000
Special benefits (DOL)	348,892,000
Retirement pay and medical benefits for commissioned officers	106,172,000
II. Veterans programs:	
Veterans compensation	9,603,900,000
Veterans pensions	4,047,600,000
Veterans burial benefits and miscellaneous assistance	146,700,000
Veterans readjustment benefits	1,944,900,000
Veterans insurance and indemnities	8,500,000
III. Unemployment compensation:	
Federal unemployment benefits and allowances	306,000,000
Advances to the unemployment trust fund	2,368,000,000
IV. Medical and food programs:	
Grants to States for medicaid (HHS)	17,866,488,000
Special milk program (Agri.)	28,100,000
Commodity Credit Corporation: price support and related programs	2,043,229,000
Child nutrition programs	1,082,890,000
Child welfare block grants—foster care (HHS)	300,000,000
Supplemental security income (HHS)	7,877,596,000
Assistance payments: AFDC (HHS)	6,302,260,000
V. Other programs and activities:	
Payments to State and local governments, fiscal assistance trust fund	4,566,700,000
Compensation of the President	250,000
Courts of Appeals, District courts, salaries of judges	59,400,000
Settlement of railroad litigation (Federal Railroad Administration)	803,000,000
Payment where energy credit exceeds liability for tax (IRS)	440,000
Oregon and California grant lands	52,788,000
Student loan insurance fund	2,752,012,000
Special benefits (Federal Employees' Compensation Act)	348,892,000
National Wildlife refuge fund (U.S. Fish and Wildlife Service)	5,760,000
Total	82,709,934,000

It's interesting when you look at the two lists, current entitlements and permanent entitlements, there is no clear reason in some cases for a separation. Following is a list of permanent entitlements.

Entitlements (permanent BA) fiscal 1982

I. Interest on the public debt:	$115,700,000,000
II. Internal revenue:	
Refunding internal revenue collections	1,711,600,000
Payment where credit exceeds liability for tax	1,254,000,000
Internal revenue collections for Puerto Rico	265,000,000
III. Retirement and disability:	
Federal old-age and survivors insurance trust fund (HHS)	130,139,351,000
Disability insurance trust fund (HHS)	21,989,235,000
Civil service retirement and disability fund (OPM)	32,545,926,000
Foreign Service retirement and disability fund	427,659,000
Special workers' compensation expenses (DOL)	29,500,000
Judicial survivors' annuities fund	10,631,000
Tax Court judges survivors annuity fund	164,000
Railroad retirement account (RRB)	5,121,000,000
Secret Service annuity benefits	9,000,000
National service life insurance fund (A)	1,161,900,000
Government life insurance fund (VA)	31,600,000

IV. Medicare:	
Supplementary medical insurance trust fund (HHS)	17,572,000,000
Hospital insurance trust fund (HHS)	38,274,000,000
V. Other programs and accounts:	
National Wool Act (special fund)	42,078,000
Unemployment trust fund	18,825,574,000
Presidential election campaign fund	38,300,000
Claims, judgments, and relief acts	506,000,000
Post-Vietnam era veterans education account	161,600,000
Payments to States from receipts for child support (HHS)	450,000
Soldiers' and Airmens' Home payment of claims	5,000
VI. Other programs and activities:	
Miscellaneous permanent appropriations (Bureau of Land Management)	593,699,000
Miscellaneous permanent appropriations (Bureau of Reclamation)	2,700,000
Miscellaneous permanent appropriations (Customs Service)	88,000,000
National wildlife refuge fund (U.S. Fish and Wildlife Service)	4,053,000
Payments to U.S. territories, fiscal assistance	54,200,000
Payments to States under Federal Power Act	85,000
Corps of Engineers permanent appropriations	5,352,000
Forest Service permanent appropriations	241,712,000
Total	386,806,374,000

Both lists have huge amounts for retirement and disability. Some of them are currently funded through an annual appropriation bill, some of them permanently funded—bypassing the annual appropriation process.

During consideration of 1974 Budget Act, it was proposed that permanent appropriations be shifted to the control of the Appropriations Committees. At present, they come out of the authorization and tax committees. The Budget Act made an exception for trust funds, the type of trust fund where you levy a tax. The Act treated separately the trust funds such as Social Security or other trust funds where 90 percent or more of the receipts come from taxes for that purpose.

The last time we did anything about permanent appropriations, terminating them and placing them on an annual or current basis, was in 1934. Legislation that year terminated many of the existing permanent appropriations.

Since that time, the 1946 Legislative Reorganization Act requested that the Appropriations Committees report out what should be done about permanent appropriations. Nothing ever came of that. The 1970 Legislative Reorganization Act requested that the authorizing committees produce recommendations. Nothing came of that either.

In Section 402(f) of the 1974 Budget Act, the Appropriations Committees were supposed to study permanent spending authority and make recommendations to terminate or modify such provisions. Nothing has happened.

The Appropriations Committees are reluctant to act in this area because they say the programs are within the jurisdiction of the authorizing committees. One approach might be to ask the authorizing committees to report on permanents, to recommend which ones should continue to be permanent and which could be funded on an annual basis. These reports would be referred to the Budget Committee for review, giving the Budget Committee one-time au-

thority to report out legislation modifying permanent appropriations.

We don't need at this point to have consensus on permanent appropriations. If you had committees reporting on their permanents, justifying some and perhaps modifying others, you are just setting up a process. All you need now is a consensus that permanents should be looked at again.

One example was back in the 1930s, Congress set up the Section 32 Program. It receives 30% of the customs revenue to finance some agriculture programs. Thirty percent was the estimate of the number of people who were farmers. 30% has been the figure ever since. What was in 1930 a fairly small amount of money, considering the level of customs revenue, turned out to be a huge pot of money. They may not want to give up the permanent nature of this program, or lose the automatic availability of funds, but the committees may acknowledge that a couple billion dollars far exceeds what they need. They may opt instead for a permanent appropriation of some four to five hundred million dollars. You might get a change in dollar amounts, not necessarily a change in permanent status.

Summary of Major Issues

In its report issued April 18, 1973, the Joint Study Committee on Budget Control had two principal concerns about the appropriation process: (1) late action on appropriation bills (requiring dependence on continuing resolutions that often covered long portions of the fiscal year), and (2) the erosion of the Appropriations Committees' jurisdiction by various forms of backdoor spending.

1. LATE APPROPRIATIONS

Action on authorizations.—The Joint Study Committee, after concluding that an important cause for the delay of appropriation bills "had been the awaiting of action on authorizations," recommended that (except in the case of emergencies) legislation providing authorizations be enacted a year ahead of time.

The House bill (H.R. 7130) required the enactment of authorizations by March 31. It also established a waiver procedure for "emergency conditions." The bill reported by the Senate Committee on Government Operations moved the enactment date to May 31. By the time the bill was referred to the Senate Committee on Rules and Administration and reported in modified form, the enactment requirement has been eliminated. In its place, the modified bill required that authorization bill be reported by May 15. Section 402(a) of the Budget Acts adopts the May 15 reporting requirement. Other provisions of the Budget Act encourage a move to advance budgeting.

Enactment of appropriation bills.—Section 309 of the Budget Act sets a deadline of seven days after Labor Day for the enactment of regular appropriations and entitlements. The deadline does not apply if legislation authorizing the enactment of new budget authority "has not been timely enacted." Moreover, since there is no bar against the consideration of regular appropriations and entitle-

ments after the deadline, Section 309 encourages but does not require enactment by the seventh day after Labor Day.

The House and Senate versions had adopted earlier deadlines for appropriation bills. Under H.R. 7130, appropriations were to be enacted by August 1 and held by Congress without being enrolled or sent to the President, unless the bill was within the budget resolution allocation. As passed by the Senate, S. 1541 required the enactment of appropriations 5 days before the August adjournment or by August 7 when there was no August adjournment. When it was decided to eliminate a deadline for enactment of authorizations, and to accept a reporting date instead, the conferees agreed to advance the date for the enactment of appropriation bills.

2. EROSION OF THE APPROPRIATIONS COMMITTEES' JURISDICTION

The Joint Study Committee estimated that of the spending planned for fiscal year 1974, only 44 percent would be associated with items considered in appropriation bills. And even some of that amount consisted of funds approved "on what for all practical purposes is a pro forma basis because the authorizing legislation in effect required the appropriation."

The Committee identified various forms of "backdoor spending" that effectively circumvented the Appropriations Committees;

Borrowing authority.—Authority to obligate and spend from funds borrowed from the general public, either by the Treasury Department or by other Federal agencies and corporations. (Example: borrowing authority extended to the U.S. Railway Association by the Regional Rail Reorganization Act of 1973.)

Contract authority.—Authority granted to executive departments to enter into contracts in advance of appropriations. The obligations must later be liquidated by appropriations, but at that point the action by the Appropriations Committees is non-discretionary. (Example: $18 billion in contract authority provided by the Clean Water Act of 1972.)

Permanent appropriations.—Appropriations provided in basic legislation without the need for annual or periodic action by the Appropriations Committees. (Examples: interest on the public debt and social security benefits.)

Mandatory spending.—Payment levels established in basic legislation which constitute a binding obligation on the part of the Federal Government. Appropriations are required to finance the programs, but the Appropriations Committees lack discretion over the level of funding. (Examples: public assistance, black lung benefits, and veterans benefit payments.)

The Joint Study Committee proposed that these forms of backdoor spending be subjected to the spending controls imposed by a budget resolution. It recommended no change regarding the treatment of existing backdoors, but proposed the following rules for future actions:

(1) The creation of permanent appropriations (other than those for trust funds) would be in order only in bills reported by the Appropriations Committees.

(2) All provisions in legislative bills (other than appropriation bills and those relating to trust funds) that authorize contract au-

thority, borrowing authority, benefit formulas, payment levels, or any other type of spending authority, "must contain language making this authority available only in such amounts as are prescribed in advance in the regular or supplemental annual appropriation bills."

The exclusion of trust funds applied only to those trust funds created by levying a special tax to finance the program (as with social security trust funds and the highway trust fund). The Committee proposed that the rule for new backdoors could be waived by a vote of two-thirds of the Members voting.

The Budget Act.—Section 401 of the Budget Act establishes separate procedures for contract and borrowing authority on the one hand and for entitlements on the other. New forms of contract authority and borrowing authority are to be treated as regular authorizations, requiring an appropriation before agencies can obligate funds. In the case of entitlements, those that exceed the allocations of budget authority made pursuant to the adoption of a budget resolution are referred to the Appropriations Committees for 15 days for review and recommendation. Neither House may consider new entitlements that will take effect before the start of the fiscal year. Exempted from the controls on backdoors are social security trust funds, other trust funds that are at least 90 percent self-financed, general revenue sharing to the extent provided in renewal legislation, the outlays of certain government corporations, and gifts to the United States.

PRESENTATION BY KEN HUNTER AND ROBERT SEXTON, PROGRAM ANALYSIS DIVISION, U.S. GENERAL ACCOUNTING OFFICE

We will summarize for you the basic logic, arguments, and proposals that have been put forward for improving budgeting, planning, and management for capital investments, sometimes referred to as infrastructure or public facilities.

The argument starts on the basis that the federal government has played a major role in the nation's investment in public facilities. This started with the establishment of "post roads" in Article I, Section 8 of the Constitution. Over the years, the Federal Government's role has expanded and it is now involved in transportation networks, inland waterways and harbors, flood prevention, power generation, public sanitation, education facilities, and housing. In the most recent decades Federal involvement has shifted from direct acquisition to grant programs as a major means of financing nondefense infrastructure needs.

It has been pointed out by GAO and others that there is no overall framework for a capital investment strategy in the Federal Government. By a capital investment strategy, we are talking about a conscious set of decisions about what each level of government is responsible for, how much of our resources we choose to invest in public capital, and how those resources will be allocated. Instead, capital investment decisions are made on a program-by-program, or project-by-project, basis without any analysis of how each fits with the long-term goals of the government. The capital investment area is often contrasted with research and development for which there

is the Office of Science and Technology Policy. This office advises the President on scientific and technological considerations of national concern and assists the President in leadership and coordination of research and development in the Federal Government.

Similarly, in the environmental area, the Council on Environment Quality provides that kind of guidance to the President on national policies that further environmental quality. Also, the new Cabinet councils provide similar forums for dealing with cross-agency functions. Again, there is no such forum for public facilities.

The only vehicle available for public facilities is Special Analysis D of the budget, "Investment, Operating, and Other Federal Outlays," which was created in the early 1950s. Special Analysis D has evolved somewhat and changed a number of times since then. However, it remains a document that is prepared after all of the budgetary decisions have been made. As such, it simply pulls together and displays those decisions that have already been made. In addition, Special Analysis D is not limited to public facilities. It also includes research and development and education and training, the human investment. While these are also very important areas, merging all of them obscures the value of each.

The General Accounting Office has examined Special Analysis D and has pointed out a number of weaknesses in it. Briefly, these weaknesses are:

(1) The analysis does not accurately portray the magnitude of capital investments activity because capital outlays from one category are netted against receipts of the same category. Examples of this are Agriculture loan programs and revolving funds such as the Federal Building Fund;

(2) The analysis does not include financial activities of off-budget agencies;

(3) The analysis displays outlays for only 3 years and does not represent total capital stock;

(4) There is no consistent definition of physical capital in use by federal agencies; and

(5) Some program outlays that can be used for either capital or operating purposes are categorized entirely in the category where the majority of outlays are expected to occur.

OMB has made some significant effort in the 1984 budget to correct some of those. They have added outlay data for off-budget agencies and outlay trends for the past 40 years. They have also added a separate display for major public works programs. Yet, still more needs to be done.

Business and state and local governments are frequently used as models for how capital budgeting can be done. However, I would like to point out some of the differences between those entities and the federal government.

First, businesses are required to follow generally accepted accounting principles which are based on accrual accounting. This requires capitalization and depreciation of assets. The same logic applies to the tax code. Inherently, businesses are required to set up a mechanism for dealing with capital investments separately in order to determine tax liabilities.

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Second, state and local governments are often required by statute or their Constitution to balance their budget—normally considered to be the operating budget. They are either required by law or are driven by the balanced budget requirement to have a separate capital budget. Also, because they issue bonds for a large portion of their capital investments, they have to deal in credit markets which require substantial separate documentation of their capital investments.

In contrast to both businesses and state and local governments, the Federal Government has none of those constraints. The Federal Government has no statutory or constitutional requirement for a capital budget, it is not subject to income taxes, nor are its debt issues subject to credit ratings.

The subject of Federal capital budgeting is not a new idea. It appeared in the work of the first Hoover Commission on Government Organization in 1949, where they recommended separating capital and operating activities within the major functions of the Federal budget. In 1967 it again came up in the President's Commission on Budget Concepts. While the 1967 Commission recommended that physical assets not be set in a separate capital budget, special tabulations for capital investments should be included in the unified budget.

The issue came up again during the last few years when people were looking at the condition of the nation's infrastructure. That again surfaced the whole issue of budgeting for these capital investments. A 1980 study by the Department of Commerce and 1981 reports by GAO and by Pat Choate and Susan Walters stimulated the relationships of infrastructure condition and capital budgeting.

There are two basic ways of implementing a federal capital budget process. One way is to go to a separate capital budget, as some states and local governments do, with its own planning and sources of financing. That is the proposal that has basically been rejected by most people from the Hoover Commission on, and is rejected by most of the people who have looked at the subject of a Federal capital budget recently.

The second basic approach is to provide investment information within the unified budget. There are at least three options for improving the information on capital investments without changing the unified budget.

First, we could set up a separate function for capital investments. This option would pull all capital investment from existing budget functions and place it in its own discrete function. That would obviously give great visibility and prominence to capital investments in the budget. However, under this option, the capital investment component would be viewed apart from the operating components of Federal programs. It would also require changes to the budget process.

The second option is to create separate subfunctions for capital investments within each budget function. Each function would have subfunctions for operating components and one for capital investments. That is probably closest to what the Hoover Commission had in mind. This, of course, would provide visibility, but would also retain the ability to make comparisons on a program basis within the functions. The disadvantages are that it would change

some of the budgetary accounting and the budget documents themselves.

The third option is to provide enhanced information with the budget, such as the special analyses that are prepared on capital investments. This option provides the maximum degree of flexibility and has the least amount of impact on the budget or the budget process, since it would not change anything in terms of authorizations, appropriations, or budget resolutions. It is essentially an information-oriented analysis. This is the option that seems to have the most agreement at this time, and is reflected in H.R. 1244, as reported out of the House Public Works Committee.

Before discussing the various legislative proposals, we should summarize the pros and cons of capital budgeting. Capital budgeting is more than just budgeting. It would provide organized information within the unified budget for both executive branch planning and legislative oversight for capital investments. Within the unified budget, as such, it would emphasize providing information analyses that focus on long term projects and the costs and benefits of those projects. It would help illuminate the Federal Government's role, as well as identifying the distinction between the Federal Government's participation and state and local contributions, and provide a better analytic basis for setting priorities and allocating funds.

From what we have been able to discern from the debate, the major con that is raised is that this increased visibility for capital investment projects would create bias toward capital investment projects and provide a forum for people to lobby for those particular projects.

The issue of infrastructure and capital budgeting have spurred recent legislative activity. At least ten bills were introduced in the 97th Congress and eight so far during the 98th Congress. The following chart is a summary analysis of the major provisions of those bills introduced in the 98th Congress:

MAJOR PROVISIONS OF CAPITAL BUDGETING BILLS (98th CONGRESS)

Major provisions	H.R. 423 (Weiss)	H.R. 1144 (Mineta) [1]	H.R. 1244 (Clinger/ Edgar) [2]	H.R. 1350 (Murphy)	S. 23 (Moynihan)	S. 1026 (Moynihan/ Dodd)
1. President's budget to account separately for operating and capital outlays	x					
2. President's budget to include special analysis of capital investment		x	x			x
3. President's budget to include capital budget within the unified budget structure			x			x
4. Executive branch to develop inventory of public facilities with condition assessment			x			
5. Establishes commission to study public facilities		x		x	x	x
6. Commission membership		23		[3] Unk.	13	13
Congress		x				
Executive				x	x	x
State and local		x		x	x	x
Private sector		x		x	x	x
7. Commission to develop inventory of public facilities				x	x	x
8. Commission to develop plan for public investment				x	x	x

MAJOR PROVISIONS OF CAPITAL BUDGETING BILLS (98th CONGRESS)—Continued

Major provisions	H.R. 423 (Weiss)	H.R. 1144 (Mineta) [1]	H.R. 1244 (Clinger/ Edgar) [2]	H.R. 1350 (Murphy)	S. 23 (Moynihan)	S. 1026 (Moynihan/ Dodd)
9. GAO to develop model budgets					X	
10. Definition of public facilities		X	X	X	X	X
Restrictive definition			X	X	X	X
All-inclusive definition		X				
Dedicated revenue incentives		X				

[1] H.R. 2025 (Mineta), a more comprehensive budget reform bill, contains provisions for a special analysis and dedicated revenue incentives.
[2] As introduced. Provisions of H.R. 1244, as reported, and S. 1432 are shown below.
[3] Number of members from state or local government is to be established by the President.

Before discussing the particulars of any of the proposed legislation, we want to point out that, as the debate goes on over capital investment, people are concerned with more than just the budget process. There is also concern over the basic planning and oversight as well.

We will make just a few observations about the bills. As shown in the chart above, they basically require the inclusion of a special analysis and capital budget in the President's budget and the development of an inventory of public facilities. The primary distinction between some of these bills is basically who would do it. In several of them the requirements are placed on the President. In others the requirements are placed upon a commission that would be set up to study public facilities and develop a public investment plan.

We would like to briefly summarize in more detail one of those bills in particular. H.R. 1244 has been reported favorably by the House Committee on Public Works and Transportation. This bill requires the President's budget materials to include an analysis of appropriations, budget authority, and outlays for major programs classified as public capital investments. The major provisions are outlined in the following chart.

MAJOR PROVISIONS OF H.R. 1244 [1]

Requires the President's budget materials to include an analysis that identifies appropriations, budget authority, and outlays of major programs classified as public capital investments and a summary thereof.

It also requires the analysis to include:

1. current service levels compared to alternative high and low levels of investments over ten year period in current dollars and five year period in constant dollars;
2. capital investment needs (most recent assessment analysis) in each major program area over a period of ten years;
3. identification and analysis of major policy issues relating to capital investment needs for each major program; and
4. identification and analysis of factors affecting capital investment needs for each major program such as (1) economic assumptions, (2) engineering standards, (3) operation and main-

[1] As reported by the House Committee on Public Works and Transportation. S. 1432 is identical to H.R. 1244.

tenance spending, (4) State and local levels of spending, and (5) demand for public services.

Federal assistance distributed by formula will be organized by State.

Major public capital investment are defined to include:

1. Highways and bridges.
2. Airports.
3. Airway facilities.
4. Mass transportation systems.
5. Wastewater treatment facilities.
6. Water resource projects.
7. VA hospitals.
8. Other major Federal building of facility.

Sunset provisions—authorized for five years, fiscal 1985–1989.

H.R. 1244 would require that the analysis include current service levels and alternative high and low investment levels over a 10-year period in current dollars, and for five years in constant dollars. That, of course, requires some economic assumptions to be made to prepare this analysis. The bill would require the inclusion of investment needs based on existing assessments over a 10-year period, explicit identification of major policy issues affecting investment, and the explicit statement of factors that affect capital investment needs, including again, economic assumptions and other factors. These would have to be made explicit.

For the formula programs, the analysis would include the distribution by states. The bill also specifies the type of capital investments that would be covered in the analysis. As you see in the chart, they are public facilities type of investments. Finally, the bill includes a sunset provision. It expires in five years.

As we mentioned earlier, H.R. 1244 has been reported by the House Committee on Public Works and Transportation. The House Committee on Government Operations is planning to consider H.R. 1244 within the next few months. In addition, Senators Durenberger and Sasser recently introduced S. 1432, which is the companion bill to H.R. 1244, as reported.

The General Accounting Office has supported the basic objectives and approach of H.R. 1244. That bill would require presentation of information on capital investment programs that would aid the executive branch in planning and the legislative branch in oversight and funding of the programs. It would do this and still retain the unified budget concept that we endorse as an overall policymaking and economic device. However, should there be a requirement for a balanced Federal budget, we would have to rethink the philosophy of having separate capital and operating budgets.

PRESENTATION BY RICHARD KOGAN, BUDGET ANALYST, HOUSE BUDGET COMMITTEE

This is a presentation on coverage of the budget. I believe that there is a consensus that budgeting serves two basic purposes. The first is to decide on the allocation of federal resources among competing claims; how much for this program, how much for that program.

The second purpose is to determine an appropriate size of the federal budget. The size of the federal budget can be measured in two different ways. First of all, there is the aggregate or total size of spending and revenues—how much we are taking in, how much are we spending. This is a representation in dollar terms of the size of the Federal Government. The other measure is the size of the margin (the surplus or deficit). After you subtract how much you are spending from how much you are taking in, you are left with a deficit.

The appropriate deficit size is a relevant question, because the deficit is presumed to have some fiscal impact. Likewise, the total size of the government is assumed by some to have an economic impact regardless of the deficit, and the total size is frequently a political question.

Given the general premise that budgeting involves deciding on the allocation of resources and deciding on the size of the aggregates, the conclusion is that any practice that interferes with making these decisions is a hindrance to good budgeting.

There are two basic types of practices that interfere with good budgeting, as I see it. First of all, there is the fact that some elements of the budget are allowed special procedural treatments that other areas of the budget are not. These specialized procedural treatments often take the form of exemptions from annual review of program levels, and may distort the choices we make in allocating resources. Second, some budget concepts or definitions are so flawed as to make budget aggregates meaningless or inappropriate.

To begin with special procedural treatments, some programs are off-budget. They are not treated at all in a budget resolution. Ron Boster will talk more about off-budget programs in his presentation.

If we limit ourselves just to the "on-budget" budget (known paradoxically as the "unified budget"), which is what I will do henceforth, we realize that all revenues, all permanent spending, all mandatory appropriations, have special treatments when compared to discretionary appropriations, simply in that they are not examined at all on a regular or an annual basis. They exist. They go on. It is this special treatment that they have, the special treatment of not being treated, not requiring annual review, that hinders the process of allocating resources among competing claims.

Further, Members find themselves acting year after year on all sorts of appropriation bills, 13 regular bills, a variety of supplementals, some urgent, some not, a variety of rescissions, and so on and so forth. Because in general that is all they find themselves working on, they assume a false syllogism.

Members may believe that if there is a deficit problem, then it must be a spending problem. In fact, it could be a revenue problem, but because they don't regularly act on revenue bills they feel that it must be a spending problem. And if there is a spending problem, it must be an appropriations problem. In fact, it could be a problem with other spending programs, programs that they are not acting on, but because they don't regularly act on other spending programs they deduce that deficit problems equal spending problems equal appropriations problems. History shows this basically to be false, but it is a conviction that Members have, and because of this

conviction, many of the efforts at budget control are aimed, probably inappropriately, at controlling the appropriations process.

Second, aside from this question of whether the allocation of resources is being mishandled because of special procedural treatments, we have the question of whether the aggregates in the budget resolution are in fact meaningful aggregates. Again we run into the problem of off-budget spending. Off-budget programs are not included in the aggregates that we deal with, and to that extent there is a problem with the deficit aggregate, simply because it doesn't take into account the off-budget deficit.

There is a second problem with the aggregates, one that has been addressed by GAO over some time. That is a problem with netting versus grossing. When the Budget Committee is putting together a budget resolution, the aggregates for budget authority, for outlays, and for revenues are really net numbers, not gross numbers. The gross size of a the Federal Government is larger than that portrayed in a budget resolution. This is particularly important nowadays, because a good many people including the President have suggested that it is important not merely to try to control the size of the deficit, but to control the overall size of the federal budget.

One phony way to reduce the apparent size of the government is simply to net more and more federal activities, more and more income, as an offset to outlays. Outlays will appear smaller, when in fact the government won't be a bit smaller. I will talk about this more later in my presentation.

The third problem with the aggregates in the unified budget is that budget authority isn't defined in a way that makes it a consistent concept. We find ourselves adding something like 14 apples plus 30 miles per hour and coming up with an answer that is budget authority. The total doesn't really make much sense. Therefore, the controls placed upon budget authority may not be effective controls.

Finally, probably the single most useful aggregate that we could consider, the level of obligations of budget authority that the government will incur this year, is one which is not in the budget resolution. Obligations are probably the best measure of program levels, and may be the aggregate that should be in the budget resolution.

In the context of these opening remarks, I would like to walk through the types of programs and types of financing that are in the unified budget, and discuss each of the types in terms of the questions that I have been raising. Figure I is simply a picture of federal budget outlays. You will notice that it is divided into permanent outlays on the left and current outlays on the right. Permanent outlays are those that flow automatically as a result of permanent law. Congress doesn't have to meet at all for the programs to continue to make outlays. Current outlays are outlays that are either realistically or at least nominally tied to the annual appropriations process; Congress does have to meet to enact appropriation bills.

With the category of permanent outlays, a very few are not considered entitlements (category "A"), but virtually all permanent outlays are considered entitlements (category "B"). On the following page chart #1 lists the major types of programs in each of the

categories. You will see that the big permanent entitlements are programs you are quite familiar with, such as Social Security, interest on the debt, Medicare, unemployment compensation, civil service retirement, Commodity Credit Corporation.

FIGURE I: PERMANENT AND CURRENT OUTLAYS

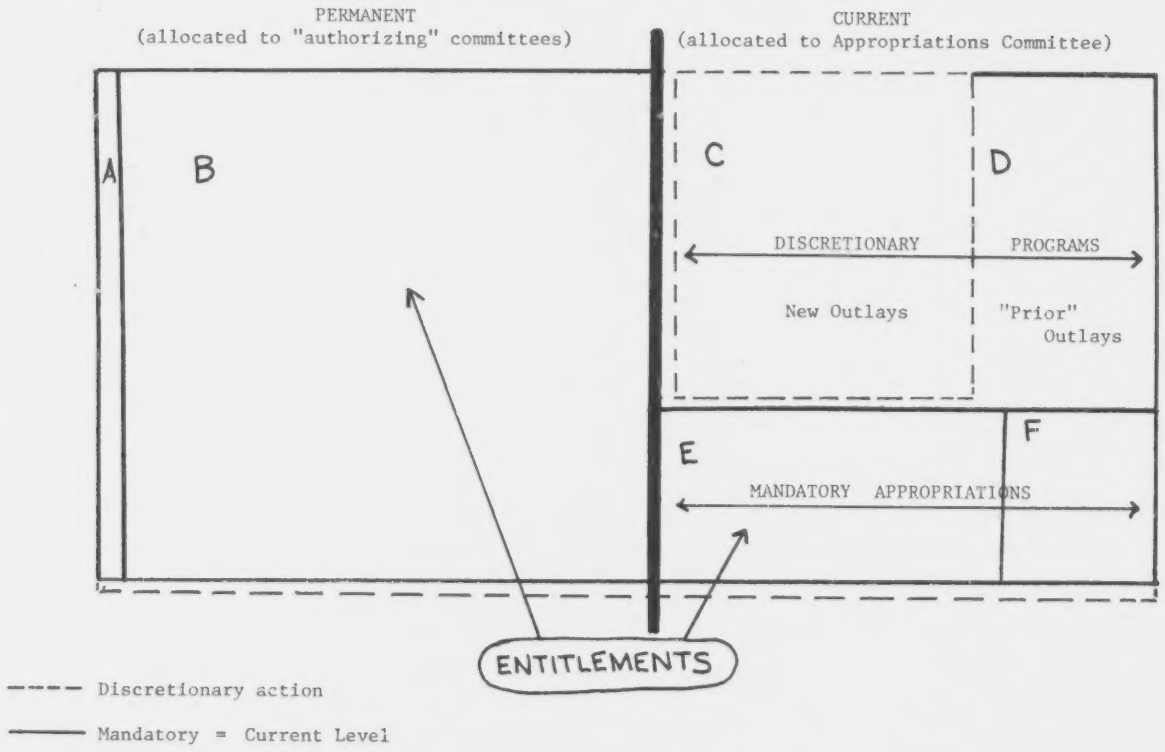


CHART 1—*Permanent and current outlays*

	Billions
(A) Permanent nonentitlements:	
Foreign military sales trust fund	$10.9
Payment to the civil service retirement trust fund	10.7
Tennessee Valley Authority fund	1.8
(B) Permanent entitlements:	
Social Security trust fund (retirement and disability)	154.5
Interest on the debt	119.0
Medicare trust fund	48.9
Unemployment insurance trust fund	22.1
Civil service retirement trust fund	19.6
Commodity Credit Corporation	11.2
(C) Discretionary programs—new outlays:	
Navy operations and maintenance	14.7
Air Force operations and maintenance	14.3
Army military personnel	12.3
(D) Discretionary programs—"prior" outlays:	
Air Force aircraft procurement	8.5
Federal-aid highways	7.7
Subsidized housing	6.7
(E) Mandatory appropriations—entitlements:	
Medicaid	17.9
Defense retired pay	15.0
Veterans' compensation	9.5
(F) Mandatory appropriations—nonentitlements:	
Payment to the medicare trust fund	14.3
Payment to the general revenue sharing trust fund	4.6
Payment to the civil service retirement trust fund	3.6

Now, the right-hand side of Figure I shows the amount that is within the nominal control of the Appropriations Committee; it is divided in a couple of different ways. I have drawn a horizontal line near the bottom of that square. Below the horizontal line (categories "E" and "F") are programs which are in fact mandatory under the terms of authorization acts, and therefore the Appropriations Committee, while nominally appropriating for them, has no real control. Medicaid is a perfect example, as are military retired pay, veterans' compensation, pensions, and readjustment benefits, AFDC and SSI, Child Nutrition, Title XX Social Services, and Guaranteed Student Loans. I am often asked about Food Stamps. It is, technically, a discretionary program, not an entitlement. If the appropriation for Food Stamps was inadequate, then the Agriculture Department could pro-rate or even terminate benefits, and no beneficiary could sue. But Congress never lets that happen.

These programs in categories "E" and "F" are programs over which the Appropriations Committee has no control, because they are entitlements, and yet the Committee must provide their funds in annual appropriation bills. These contrast with categories "A" and "B", which don't even have to be appropriated. There is really no excellent reason why the funds in categories "E" and "F" should even be in the Appropriations Committee jurisdiction. They are as permanent and ongoing as the "A's" and "B's". But annual appropriations at least brings the costs to Members attention, which is educational, and may allow more oversight over program administration.

You will note that all four of these categories, "A", "B" "E", and "F", are surrounded by a solid line, showing that they are mandatory under existing law. Running under these categories is a thin dotted line rectangle, which I threw in to recognize the fact Con-

gress can, and occasionally does, take action to change permanent law. It did this most conspicuously in last year's reconciliation bill, and it can do it whenever it wants to on other laws. A law liberalizing Social Security or tightening eligibility on Social Security, either way is a change to permanent law. Because that change comes through legislation that will hit the floor and Members will have a chance to vote on, the legislation is a piece of discretionary action for Congress to take. I did not want to leave the impression that all of these permanents were forever locked in concrete and were mandatory and could not be changed.

I did want to leave the impression that there is a huge block that under existing law is mandatory, and can only be changed by a change in substantive law, and that those changes in substantive law do not automatically happen unless the committees choose or are forced to make them happen.

Above the horizontal line on the appropriations side (the right-hand side) we have all of the discretionary programs. The discretionary programs are the ones that you act on, and in fact can amend on the floor, when an appropriation bill comes up. About 60 percent of discretionary appropriations relate to defense, but there are hundreds of others that generally run the Federal Government, e.g. salaries and expenses, discretionary programs such as EDA grants, urban development action grants, transportation, science, research, education, veterans' health, law enforcement, and so on and so forth.

When budget authority is appropriated in an appropriation bill, a portion of that budget authority will spend out in the year for which the appropriation was made. For example, we will act some time this summer on the fiscal year 1983 HUD-Independent Agencies appropriation bill, and it will provide budget authority for EPA construction grants.

However, total outlays for EPA construction grants in fiscal 1983 will come only in part from that appropriation; in part the outlays will come from appropriations that are already enacted into law in prior years. So category "C" shows the new outlays and category "D" shows the so-called "prior-year outlays." Again, even though EPA construction is a discretionary program, if the Appropriations Committee did not meet this year, those prior-year outlays would still happen because they result from existing law—appropriations made in prior years. In that sense, they are mandatory.

In general, the term of an appropriation act says whether all of the funds in it have to be obligated in one year or whether they have a multi-year period during which the appropriation can be obligated. Defense, for example, has multi-year or no-year obligation authority, while nearly all civilian programs are one-year. There is some discretion over obligations even though they result in prior outlays. But it is up to the discretion of the agency, however, rather than the discretion of Congress, in controlling the time of obligations. The only way that the Appropriations Committee could slow down the rate of obligations would be to find unobligated balances and go back and rescind them. If there are unobligated balances that would be scheduled for use, Congress can choose to rescind those unobligated balances, and that will reduce prior-year outlays.

The point is, however, if the Appropriations Committee didn't exist this year, then these prior-year outlays would tend to flow out. The result is that everything surrounded by a solid line, categories "A", "B", "D", "E", and "F", which as you can see is 75 percent of the budget, is outside the discretionary control of this year's appropriations action. That is what people mean when they say the budget is 75 percent uncontrollable. The reason the question of unobligated and obligated but unexpended balances is relevant is that they total on the order of eight hundred billion dollars combined.

Figure II shows the same rectangular picture of Federal spending. In this case, though, the dotted and solid lines show which amounts are funded through trust funds and which from Federal funds, i.e. the general fund of the Treasury. Category "A" is surrounded by a dotted line, and represents trust fund outlays. The remainder categories, "B", "C", "D", and "E", are drawn in a solid line and represent Federal fund outlays. You will see that the bottom right hand section in this Figure, category "E", corresponds to mandatory appropriations that are not entitlements. You will notice that these are payments to trust funds. The reason those payments are not deemed to be entitlements is that the definition of entitlement in the Budget Act, Section 401(c)(2)(C), provides that an entitlement is a mandatory payment to a person or government. A trust fund is not deemed to be a person or government by the lawyers, and so we have annually funded payments that are not entitlements but that are mandatory.

Payments to trust funds are Federal subsidies that are in addition to the earmarked revenue of those trust funds. These are general fund transfers to the trust funds. In a sense this means that the big rectangle portrays some double counting. The most conspicuous payments from the general fund to the trust fund are payments for Medicare part B, for civil service retirement, and for the General Revenue Sharing Trust Fund.

FIGURE II: TRUST AND FEDERAL FUND OUTLAYS

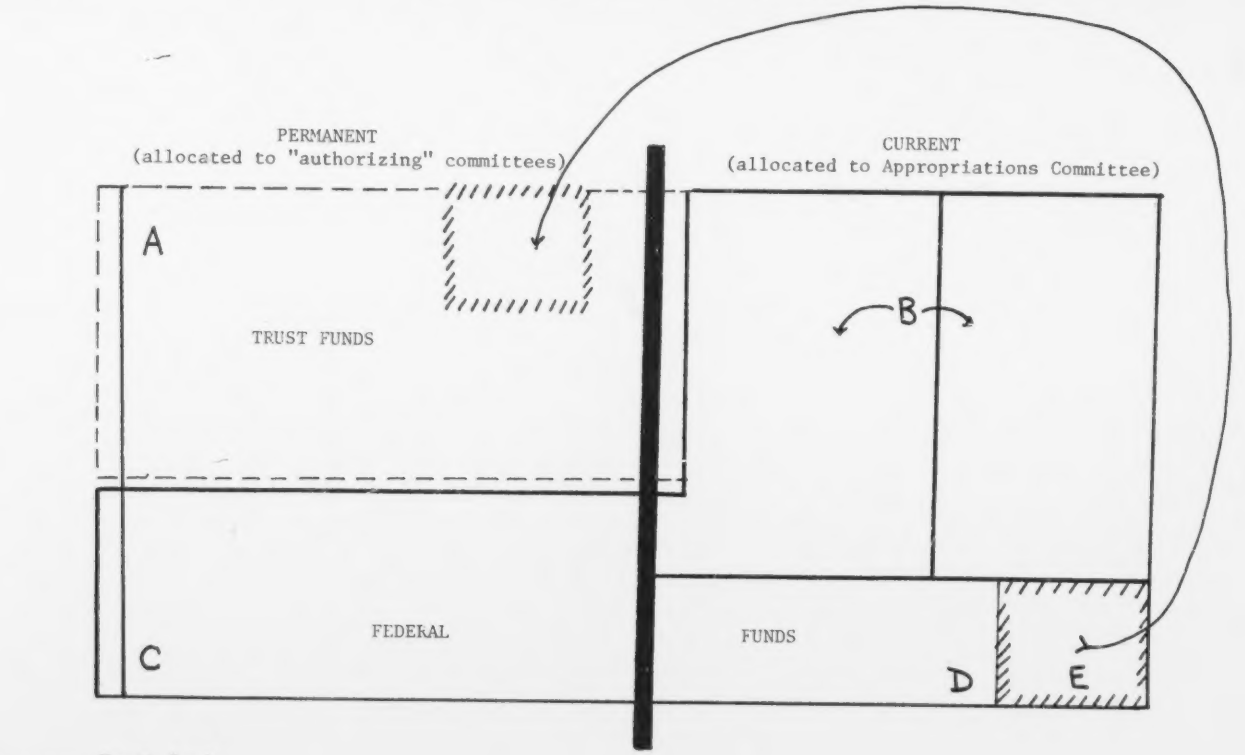


CHART 2.—*Trust and Federal fund outlays*

	Billions
(A) Trust Funds:	
Social Security retirement and disability (permanent)	$154.5
Medicare (permanent)	48.9
Unemployment insurance (permanent)	22.1
Civil service retirement (permanent)	19.6
Foreign military sales (permanent)	10.9
Highway (current)	8.1
(B) Federal funds—current discretionary programs (total outlays):	
Navy operations and maintenance	19.3
Air Force operations and maintenance	16.2
Army operations and maintenance	14.8
Army military personnel	12.5
Food stamps	11.5
(C) Federal funds—permanent:	
Interest on the debt	119.0
Commodity Credit Corporation	11.2
Payment to the civil service retirement trust fund	10.7
(D) Federal funds—current entitlements:	
Medicaid	17.9
Defense retired pay	15.0
Veterans' compensation	9.5
(E) Federal funds—current payments to trust funds:	
Payment to the medicare trust fund	14.3
Payment to the general revenue sharing trust fund	4.6
Payment to the civil service retirement trust fund	3.6

In those trust funds often the amount of resources are simply inadequate to meet their needs and must be supplemented by general funds. That is the case for revenue sharing, which has no independent source of resources. In other cases, there is something about the statute that requires a regular supplement from the general fund in order to keep the long-term liability more or less covered. There are usually statutory requirements on a program-by-program basis that determine the level of that subsidy. Let me give you an example. The practice is for the government to calculate the 30-year unfunded liability of the civil service retirement and disability trust fund, and then put in whatever equals 1/30 of that amount every year, so that on a 30-year basis, at least, that fund in whole. It is for this reason that that fund really has $70-plus billion in unobligated balances, which are just being invested in treasury securities.

Another interesting example is the Medicare Trust Funds, which are being supplemented—I am not sure how the law requires them to be, but it does require it. The supplement is more than Medicare needs, at least for this year, and then Medicare lends that money to the other Social Security trust funds. That is the interfund borrowing that you hear about from time to time. Put simply, the general fund subsidy that is transferred to Medicare is being used as the basis for the interfund transfer to Social Security, to keep the old age and survivors fund solvent. This is not widely realized.

In the left-hand portion of Figure II, which is the side that was funded by permanent law, the bulk of those expenditures are from trust funds. Again, in chart #2 you will see examples of programs in each category. These will be the same sorts of examples you just saw, but arrayed in a different form. You will see that the big permanent trust funds are Social Security, Medicare, unemployment insurance, civil service retirement, and foreign military sales.

You will also see that there is a little bit of trust fund spending which is actually controlled on a current basis, i.e., controlled by the Appropriations Committee. The Highway Trust Fund basically accounts for this, since actual program levels are generally controlled by annual obligation limitations in appropriation bills.

You will also see that a fair amount of the permanent appropriations are not from trust funds. They are from federal funds. Interest on the debt basically accounts for this, although there are some other examples: Commodity Credit Corporation borrowing authority, for instance.

On the other hand, you will notice that virtually everything that the Appropriations Committee does, with the exception of payments out of the Highway Trust Fund and a couple of others, are in fact federal funds, so the useful lesson here is that when you are thinking about permanents, most of them are trust funds, and when you are thinking about uncontrollables, again most of them are permanent and funded through trust funds.

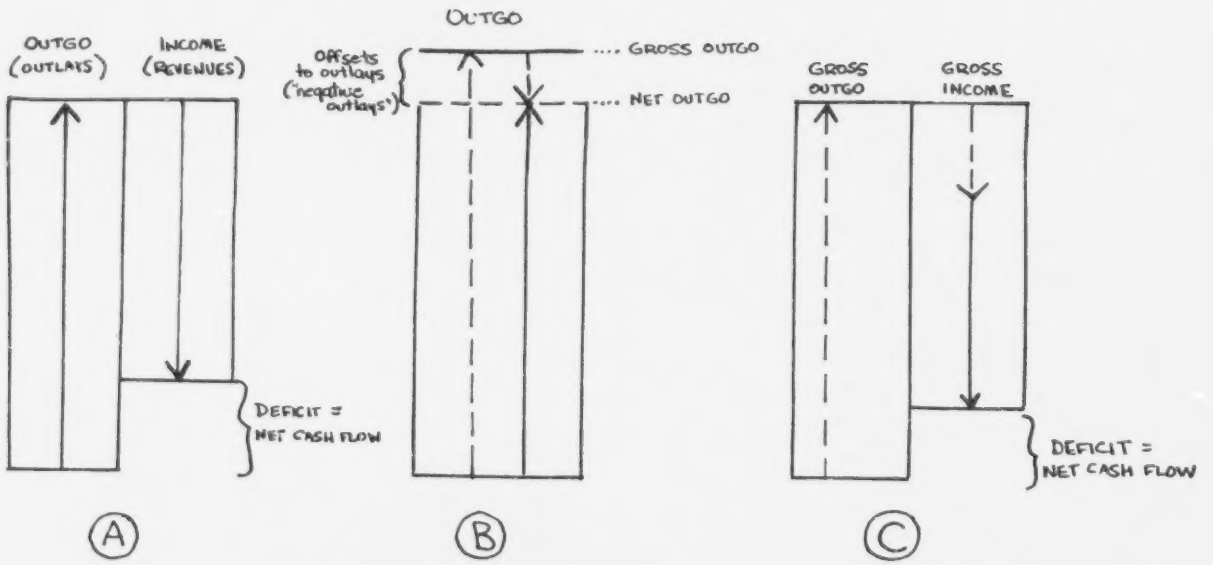
Now, with this background about trust fund and federal fund spending, I want to address one of the questions that I raised in my opening remarks, the question of the size of the Federal Government. As I said earlier, one of the purposes of budgeting is to simply decide what the appropriate size of the Federal Government is in aggregate terms and also in terms of deficit.

In Figure III, on the left you see a very simple bar graph, labeled "A". You see the payment from the government to the public, shown as a solid arrow going up. This represents money going out of the government, known as "outlays". And, immediately to the right, you see partially offsetting that is money coming from the public to the government, shown as an arrow going down. This year—this is 1982 I portrayed—this year, like virtually every other year in our memory, the money coming in isn't as much as the money going out; there is a deficit.

FIGURE III: NET vs. GROSS TRANSACTIONS

GOVERNMENT/PUBLIC CASH TRANSACTIONS (excluding Treasury borrowing)

PUBLIC



GOVERNMENT

CHART 3.—*Net versus gross transactions*

[Offsets to outlays]

	Billions
(A) Proprietary receipts:	
Interest paid (to the Treasury) by Federal Financing Bank	−$11.9
Rents and royalties on the Outer Continental Shelf	−7.0
Medicare premiums	−3.9
Mineral royalties and leases	−1.3
(B) Proprietary collections—loan repayments:	
Commodity Credit Corporation	−7.0
Agricultural credit insurance fund	−3.8
Export-Import Bank	−1.9
Rural housing insurance fund	−1.1
(C) Proprietary Collections—sales of assets:	
Agricultural credit insurance fund	−5.9
Rural housing insurance fund	−5.6
Rural development insurance fund	−1.5
Special assistance functions fund (GNMA)	−1.0

And when people look at the federal budget in simple form, that is what they see and that is what they think happens. But look more closely at the outgo side, the outlays; move over to Bar B and look more closely at it. You will notice that that bar is really a net outgo. It is not gross outgo. In actuality the money flowing out of the government to the public is probably $70 to $75 billion higher than is portrayed in the outlay totals in the budget. That amount is offset by money coming in, and that money coming in is called, not income but rather offsets to outlays, negative outlays. In chart #3, I list the major sources of the offsets to outlays that exist in the budget.

The first source of such offsets are proprietary receipts, the results of so-called business transactions between the government and the public, in which the government owns, for example, a piece of property and sells it or leases it or rents it. Money received from rents and royalties from the Outer Continental Shelf will, as oil prices goes up in price, be the largest single source of proprietary receipts to the government.

The point I want to make is that this is revenue in the same sense as tax income, in that it goes into the general fund of the Treasury and sits there. But instead of being scored as income, it is scored as negative outlays, and thus it depresses the apparent size of the outlays of the Federal Government.

As you see from the diagram, it really doesn't make any difference to the deficit whether income coming in, as from the Outer Continental Shelf, is scored as a negative outlay or as positive revenue. Either way it decreases the size of the deficit, so that the deficit is not affected by this problem as you can see in Bar C. However, the aggregates representing the whole size of the Federal Government—budget authority and outlays—are affected.

GAO suggested a number of years ago that all income be counted as revenues and all outgoes be counted as outlays, and OMB differed with their opinion. I have recently reviewed the OMB argument.

They made a number of points. One is that the public thinks of income as that which is raised by the tax code. Here we have income that isn't raised by the tax code, but it is rather raised as a business-type transaction. Therefore, if we said revenues were $70 billion higher than what we have been saying they were, the public

would probably think the taxes were $70 billion higher and this might cause a political problem. In fact, there is a valid analytical distinction between revenue raised by taxes and receipts that come in from other type transactions. This is especially the case in revolving loan funds, where the business income is essentially caused by, rather than independent of, the spending or lending undertaken by the fund.

Despite the validity of that distinction, however, in my opinion I think that OMB is wrong to net business income in its spending aggregates, because I think it has the more important effect of artifically depressing the total size of the Federal Government, and because it can lead to distortions in making programmatic comparisons.

This issue is just a question of definitions. In fact, in the definitions section of the Budget Act, revenues are defined, budget authority is defined and outlays are defined, and they are all defined in such a way that business receipts don't fit logically in any category. So right now it is just a treatment that doesn't fit a definition. We could clarify the definition in the Budget Act.

There are also other offsets to outlays. Unlike proprietary receipts, which simply are deposited in the general fund of the Treasury, proprietary collections are deposited directly into certain individual accounts and can be reused in those accounts.

Primary among those proprietary collections are loan repayments into loan accounts. In 1982 the Commodity Credit Corporation, for example, got $7 billion in repayment, the Agricultural Credit Insurance Fund got $3.8 billion back in repayment. There are also sales of assets, which also produce income into the account.

Now, most of the big sales of assets are in fact phony sales of assets. That is to say, the asset is an IOU which the agency got by lending some of its capital. The agency then sells the IOU, not to the public but to the FFB. Further, if the IOU goes bad, the agency must buy it back from the FFB. So this type of transaction merely shifts costs off budget without reducing the total cost to the government. Nonetheless, it is a sale of an asset, and it counts as incoming money to the account, so it is scored an offset to that account's outlays.

If I may digress a moment, I am sometimes asked how we treat assets in the budget. And I talk about the assets of land, buildings, and whatever else the government owns, and the value of it. The answer, basically, is that we don't treat either assets or liabilities at all, unless there is a cash transaction made of those assets. We don't have an asset and liability budget. One could try to create an asset and liability budget of the Federal Government. I think it would be a complicated task, because one type of liabilities are the contingent liabilities, such as the requirement for us to pay all the future Social Security claims of people who are presently alive and in the work force.

Another contingent liability is the $700 billion in liability insurance that we have provided to the nuclear power industry. It would be hard to figure out what the liabilities of the government are. It would be hard to value the assets of the Federal Government, and it may be hard to decide I think the conceptual issue of whether

the Federal Government is distinct from the people of the United States, and therefore whether we should value their assets.

For those reasons there isn't an assets and liability budget. There is a cash flow budget, and because there is a cash flow budget, if an asset changes hands and there is a cash flow, that flow is shown on the outlay side of the budget. Otherwise there is no action shown.

Part of the rationale behind the so called capital expenditure budget is the concept of assets and liabilities. It seems to me that a capital budget would take a halfway step toward an asset and liability budget, and that we would be unable to take the other half step to make an intelligent budget presentation, and therefore it would probably mislead people more than it would lead them. Basically, there are two thoughts behind the capital budget. First, a lot of Members feel that infrastructure is a major issue of the eighties and that the cash flow budget does not serve us very well in terms of making policy decisions. So several members are trying to look at the possibility of capital budget to help them make policy decisions relating to infrastructure questions. There are serious definitional questions about what constitutes a capital expenditure. Many consider education to be a capital expenditure, or foreign economic aid, or any other cost the primary purpose of which is investment. This goes beyond mere physical assets such as bridges or canals.

The second purpose of a capital budget is to reduce the apparent size of the budget and the deficit by amortizing the cost of capital expenditures. Almost every state I know of has a capital budget, and many wonder if the arguments that are applicable to the States don't also apply to the Federal Government. I think not. The basic reason is that States don't make fiscal policy. The Federal Government does, and one needs a cash flow budget in order to make fiscal policy. Further the States also have constitutional amendments requiring a balanced budget. Capital budgets are never balanced in cash terms, but the operating budgets are, the ones they talk about when they talk about balanced budget. Finally, I believe that if we amortized not only the cost of capital expenditures, but also the unfunded liabilities of the government (including the contingent liabilities), the budget picture would be worse, rather than better, than the cash-flow picture. That is why I say that capital budget proposals only go half way and may be misleading.

The final point I want to make about budget aggregates is illustrated in Figure IV. We really have three different types of funds in the budget: federal funds, trust funds, and revolving funds. The reason you didn't hear me discuss revolving funds much before now is that they net to near zero. In 1982 they conducted about $30 or $40 billion worth of activity, but they netted to minus $.8 billion, so as long as the budget is going to portray revolving funds on a net basis, one pretends that they don't exist. In fact, they do exist.

Now, Figure IV shows you the types of aggregates, budget authority, obligations, and outlays that exist in the three different types of funds in the budget. For federal funds, which are the ones that are appropriated, (and certain permanents), budget authority, obligations, and outlays have a very orderly relationship. Budget

authority is appropriated. With that budget authority an agency is allowed to enter into obligations, and the obligations will result in outlays.

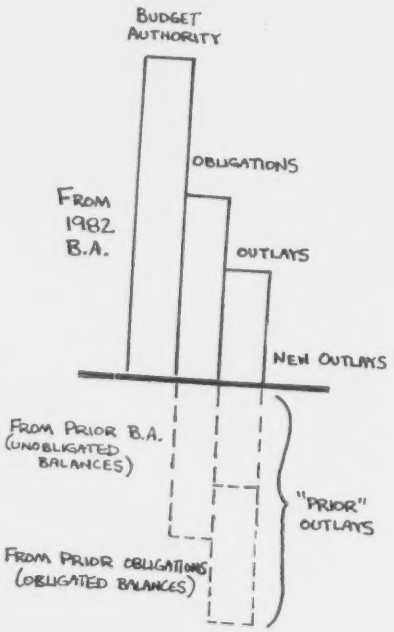
FIGURE IV: FUNDS IN THE BUDGET

FEDERAL FUNDS

B.A. = New funding for total program

Obligations = 1982 program level

Outlays = 1982 cash outflow

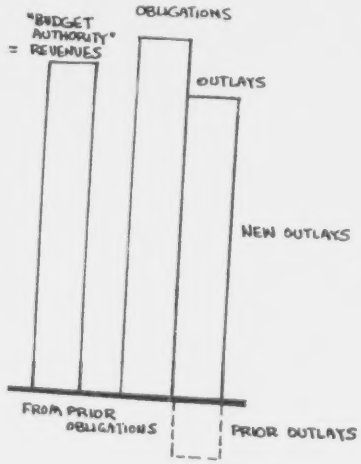


TRUST FUNDS

B.A. = Revenues

Obligations = 1982 program level

Outlays = 1982 cash outflow

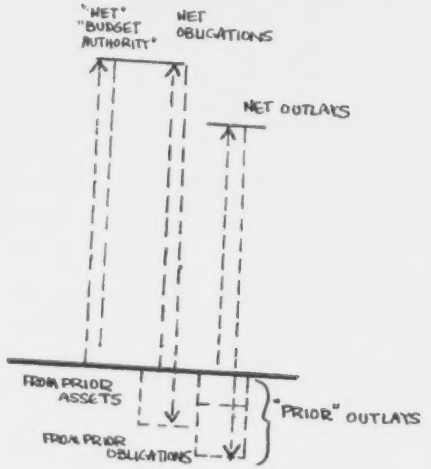


REVOLVING FUNDS

B.A. = Zero

Obligations = Not 1982 program level

Outlays = Not 1982 cashflow



Furthermore, they can enter into obligations if they have any unused budget authority from previous years, and that will also result in outlays.

And finally, if they have any obligated but unspent authority from previous years, that could also result in outlays.

The concept of budget authority, obligations, and outlays are meaningful. Budget authority means how much new funding Congress provided this year, to be obligated in this or future years. Obligations means how many contracts are going to be signed. An obligation commits an agency in a contractual way with an outside party. It may be a purchase order, a grant award, an offer to hire, and so on. It is the legal commitment of budget authority. Obligations is the best definition of program level. Outlays are the cash flow that is associated with all the obligations that result from this year and prior-year actions.

With trust funds, the logical and meaningful relationship between the budget authority, obligations, and outlays is broken. Budget authority in trust funds are defined as revenues. It is a very different definition from new funding for the program. To illustrate exactly how different it is, consider an amendment that cuts Medicare benefits, for example.

Such an amendment would reduce obligations and outlay for Medicare. It would have the result of increasing budget authority for Medicare, the reason being that once their outlays are cut, the trust fund surplus is larger; that surplus is invested in treasury bills. That means the trust funds are getting more interest in the Treasury. Therefore, their total income that year, which consists of premiums, taxes, general funds subsidies, and interest will be higher.

Now, obviously an amendment that cuts benefits and increases budget authority illustrates the fact that budget authority is not a useful concept in terms of program level for trust funds. This really contrasts with Federal funds, in which the appropriation of budget authority controls the level of present (and occasionally future) obligations and outlays.

It is therefore conceivable that this task force, if it is going to get to the issue of redefinition, will want to redefine budget authority, or will want to change the aggregates used in creating a budget, so that we are considering obligations, i.e., program level, as well as outlays, actually cash flow.

The question is should we score trust funds revenues as budget authority, or should budget authority have some different meaning for a trust fund, or should we not use budget authority as one of our controls and instead use obligations as one of our controls.

That raises a subsidiary question, whether the Appropriations Committee should generally use obligations as one of its controls. It is perfectly possible to use obligations as a meaningful budget aggregate without requiring the Appropriations Committee to alter its existing mode of operation. However, when the Appropriations Committee appropriates budget authority, particularly for multi-year and no-year appropriations, as pointed out, they are talking about the long-term cost of the project they envision. It may also be relevant to control this year's program level, and it may well be that we want to consider whether the Appropriations Committee

should write language such as, "the following sums are appropriated as budget authority, and the limitation on obligations from available budget authority shall be X." Thus an appropriation bill will do both rather than one.

Now, when a multi-year appropriation is made in the defense area, it is consciously envisioned that the obligations may vary in their yearly distribution; there may be more in the first year, fewer in the second, and so on. This flexibility probably makes procurement, research and development and the like, more cost-effective, and has the useful side effect of being slightly counter-cyclical in its effects on the economy. The broadest question is whether the budget process should try to control total obligations and outlays over time, or should it aim at even tighter control over one fiscal year. In general, I think policy and program efficiency are better served by a multi-year approach. Even so, estimated obligations are a more meaningful concept or budget target than new budget authority.

I should add that the information on obligations already exists, on a line-by-line basis, in the Budget Appendix. It is our choice on whether we want to use it and use it as a control mechanism. There are various ways to control obligations other than by controlling the level of new budget authority.

First, if we are dealing with unobligated balances that could be obligated, one possibility is to rescind some. Another control mechanism is simply to cap the use of the total unobligated balances, to write an appropriation law that limits amounts to be obligated. A deferral would work also as a cap. In fact, a cap would mean that the unobligated balances would have to be deferred for a future year.

The question I am raising is whether the aggregates are accurate and meaningful pictures of the budget, and I say in essence no, for three reasons. First, the budget authority aggregate does not tell us about obligations.

Second, it adds together revenues in trust funds plus real budget authority in federal funds, and that is a misadding which doesn't make sense. Third, the whole thing is net rather than gross, so it is giving us a picture that is too small.

PRESENTATION BY BRUCE MEREDITH, STAFF ASSISTANT, HOUSE COMMITTEE ON APPROPRIATIONS

(The following materials were used in discussion of the Congressional Budget Act timetable in presentations made during the summer of 1982 and the summer of 1983.)

TIMETABLE ORIGINALLY SET FORTH IN THE CONGRESSIONAL BUDGET ACT

(Summer 1982)

I. HOW BAD WAS IT PRIOR TO THE CONGRESSIONAL BUDGET ACT?—THE OLD SYSTEM HAD VIRTUALLY BROKEN DOWN

Not since WWII had all appropriations been enacted by July 1, the beginning of the fiscal year. From 1970 to 1977 none of the reg-

ular appropriation bills had been enacted before July 1. From 1960 to 1970 only 17 out of a total of 127 were enacted prior to July 1. Furthermore, after more than a quarter of the fiscal year had passed only one fifth of all those bills had been enacted. Some major departments, including Transportation and HEW went an entire fiscal year without an appropriation. In fiscal year 1970, $35.8 billion of the budget required authorization. By October 8, 1969 final action had been taken on only $3 billion—a quarter of the fiscal year had already passed.

II. THE CONGRESSIONAL BUDGET ACT MADE SPECIFIC CHANGES TO IMPROVE THE EXISTING SYSTEM—BUT NOT ENOUGH

A. Response to size of workload: Change the fiscal year

The July 1—June 30 fiscal year had been adopted in 1842 when total Federal outlays were $27 million. In 1900 they were 3 percent of a $17 billion economy; in 1920, 6 percent of a $74 billion economy; in 1974, 21 percent of a $1.5 trillion economy.

The Congressional Budget Act of 1974 established the fiscal year from October 1 through September 30.

Congress basically added three months to its available work time on the budget, kept submission of the President's budget at 15 days after Congress convenes in January—and put the squeeze on the Executive to close out the books on the fiscal year now ending September 30 and finish budget preparations in late January.

B. The late authorization problem: A bandaid doesn't do it

1. Sec 607 requires the President to submit authorizations by May 15, a year in advance of the time Congress would begin considering funding bills for the budget year. The Congressional Budget Act conference report said the intent of this section was to develop a pattern of enacting authorizations a year in advance.

2. Authorization bills required to be reported by May 15.—This provision is a political compromise and is inconsistent with (1) House Rules which require enactment of authorizations prior to consideration of appropriation bills, which begins after May 15 according to Budget Act Timetables; and (2) the Congressional Budget Act conference report which states that enactment of authorizations a year or more in advance is necessary for the timetable to work.

C. Labor Day plus 7 deadline for enactment of appropriation and entitlement bills

The Congressional Budget Act states that this deadline is critical for enactment of the second budget resolution and also provides that this section does not apply if authorization is not timely enacted. It is a dead letter section for appropriation bills since authorizations are not generally enacted by then. The deadline does not apply to revenue legislation.

D. The Congressional Budget Act skirted the authorization problem and created more problems in the process.

1. Confusion results from the fact that it is not generally known that the authorization deadline in the Act is a compromise that is

unworkable and inconsistent with House Rules. Appropriation bills can proceed safely only if they proceed under a rule waiving points of order. Nevertheless, requests to waive the rules generally carry with them negative connotations in the eyes of many Members.

2. Members of authorizing committees complain because their bills reported by May 15 as required by the Act may not be scheduled for floor action prior to appropriation actions. But the appropriation bills must move forward in June to permit enactment prior to the beginning of the fiscal year. Tension and misunderstanding between committees and headaches for the leadership are the result.

3. In 1979 the problem was exacerbated because key Senators took the view that consideration of appropriation legislation in the Senate, at least, should await enactment of authorizing legislation. As a result, appropriation bills that rolled through the House came to a thudding stop in the Senate, and the Congress experienced an unusually heavy crunch in its last days.

4. The May 15 reporting requirement also tends to generate its own "term paper deadline" mentality; that is, authorizing legislation that was heretofore considered and enacted well before the President submits his budget is now sliding to the new reporting deadline. The end result is that the House floor schedule between May 15 and the beginning of consideration of appropriation bills is jammed even more.

E. The problem was known and the results of timidity were predicted

1. See November 1969 Wall Street Journal article which describes the problem as it was seen then (appears at the end of the outline).

2. In testimony before the Brooks Committee on proposals to change the fiscal year, witnesses urged Congress to give higher priority to a more critical reason for late appropriations—that is, late authorizations.

a. Budget Director George Shultz in 1971 opposed merely changing the fiscal year and called for (1) 2 to 5 year authorizations, (2) no dollar amounts in authorizations, (3) extension of authorization a year in advance, (4) use of a fail safe system permitting appropriation bills to extend authorizations for one year if they were late.

b. Former Budget Director Charles Schultze in 1971 also called the fiscal year change a band-aid, felt it did not address the problem, and called for (1) 3 year rolling authorizations, (2) advance appropriations to give states and local governments necessary lead times, (3) a fail safe system permitting appropriation bills to move forward after July 15 (The fiscal year began on July 1 then.)

c. Comptroller General Staats also called for (1) multiyear authorizations, (2) extension of authorizations one year in advance.

III. THE CONGRESSIONAL BUDGET ACT ESTABLISHED A BUDGET TIMETABLE

A. The timetable coordinates the four main phases of the congressional budget process (1) authorizations, (2) budget resolutions, (3) spending and revenue measures, and (4) reconciliation.

B. The Congressional Budget Act also requires various submissions of information and analysis from the Executive and the Congressional Budget Office on specified dates.

C. Rationale for the timetable.

THREE YEAR CYCLE FOR FORMULATION OF THE FISCAL 1983 BUDGET
ACCORDING TO TIMETABLE IN CONGRESSIONAL BUDGET ACT OF 1974

		EXECUTIVE	CONGRESS				
	TIME LINE		AUTHORIZATION BILLS	BUDGET TARGETS AND CEILINGS	REVENUE AND SPENDING LEGISLATION		TIME LINE
	1981 JAN				Appropriations Bills	Entitlement & Revenue Bills	1981 JAN
	FEB	(1)	(3)	(4)	(5)	(6)	FEB
	MAR	The	*OMB Guidance to Agencies				MAR
	APR	Executive	APR-JUN				APR
A	MAY	Prepares	*Pres.submits yr-ahead auth MAY 15				MAY
	JUN						JUN
	JUL	Congress	*Agencies prepare requests				JUL
	AUG	Gets	JUL-SEP				AUG
	SEP	An	*OMB reviews, Pres. decides				SEP
	OCT	Early	OCT-JAN				OCT
	NOV	Start	*Pres.submits current srvs.	*JEC reviews current service by DEC 31			NOV
	DEC		NOV 10				DEC
B	1982 JAN	President submits Budget	*Pres.submits Budget 4th week in JAN				1982 JAN
	FEB	Congress prepares & adopts		*Cmtes submit views MAR 15 *CBO submits rpt APR 1 *Budget Cmte rpt APR 15			FEB
C	MAR	fiscal & priority policy targets	*Pres. revises estimates APR 10	*Authorization Legislation Reported by MAY 15	*Cong. enacts 1st Bud.Res. MAY 15 *Conf.Rept. allocates totals to Cmtes MAY 15	*FY 83 Approp.Bills wait until 1st Bud. Res.in place MAY 15	*FY 83 Entitle.and Rev. Bills wait until 1st Bud. Res. in place MAY 15	MAR
	APR							APR
	MAY 15							MAY
	JUN	Congress enacts	*Pres. revises estimates		*Budg. Cmtes & CBO score-keep legisl. against targets MAY 15 to Labor Day + 7	*Spending totals divided among Approp Subcmtes-reported to the House *Rec.Appro.sum.rept.	*Other Cmtes with spending juried.divide allocations among subcmtes or programs and report to House	JUN
D	JUL	Budget	JUL 15					JUL
	AUG	(Majority Control Period)			Appropriations and Legislation Adopted Labor Day + 7		Entitlement and Revenue	AUG
	SEP 10							SEP 10
E	SEP	Congress reassess and sets policy		*Congress adopts 2nd Budget Res. SEP 15 *Reconciliation adopted				SEP
	OCT	Binding Limits on Revenues and Spending in Place	*Budget Apportioned to Agencies	*Budget Cmtes and CBO scorekeep against binding limits				OCT
	NOV							NOV
	DEC							DEC
	1983 JAN		*Pres.submits revised FY83 Budget - JAN		*Urgent Supplementals JAN-MAY 15			1983 JAN
	FEB							FEB
F	MAR	(Point of Order Control Period)	*Pres.revises estimates APR 10	*Congress revises binding limits for FY 1983 MAY 15				MAR
	APR							APR
	MAY 15							MAY 15
	JUN		*Pres. revises estimates JUL 15		*General Supplemental for FY 1983 considered AFTER MAY 15			JUN
	JUL							JUL
	AUG							AUG
	SEP							SEP
G	OCT		*Actual figures for FY 1983 developed					OCT
	NOV							NOV
	DEC							DEC
	1984 JAN		*Actual figures for FY 1982 submitted in FY 1985 Budget					1984 JAN

CY 81

CY 82

CY 83

1. Phase A.—While the President prepares his budget, the Congress gets an early start with year ahead authorizations to be submitted by May 15 and a current services budget to be submitted on November 10, in the year prior to the Budget submission.

2. Phase B.—The President submits his budget 15 days after Congress convenes—about the 4th week in January.

3. Phase C.—Congress prepares and adopts fiscal and priority policy targets.

a. Committees submit views and estimates to Budget Committees by March 15.

b. Congressional Budget Act submits annual report April 1.

c. The Budget Committee's report by April 15.

d. Congress adopts targets for fiscal and budget policy, and allocates total spending to committees responsible for spending legislation by May 15.

e. While targets are being established, all action on revenue and spending bills is withheld. Meanwhile, authorizing legislation is due to have been reported by May 15.

4. Phase D. Congress enacts revenue and spending legislation.—

a. Spending committees divide their totals among subcommittees (or major programs for nonappropriations committees) and report to House.

b. The reported figures are used for scorekeeping purposes by the Budget Committee and the Congressional Budget Office.

(1) Majority rule is the enforcement mechanism during this period for appropriation bills.

(2) Entitlement legislation exceeding its targets is referred to Appropriations Committees, which may report the bill with an amendment addressing totals, not substance. Majority rule is the enforcement mechanism on the floor.

c. The House Appropriations Committee is required to report a summary of its actions to the House, comparing with budget resolution targets—prior to consideration of any appropriation bill in so far as practicable.

d. All action is to be completed on budget authority and entitlement bills by Labor Day plus 7 days. No deadline is set for revenue bills.

5. Phase E. Congress reassesses fiscal and policy priority.—

a. By September 15 Congress takes one last look at the needs of the economy, considers the budget that has been enacted, and then sets firm limits on revenues and spending for the fiscal year, in the second budget resolution.

b. If changes are necessary Congress may direct reconciliation in the second budget resolution, calling on committees to recommend changes in revenues, budget authority or *new* entitlement authority in their jurisdiction. Reconciliation legislation is to be adopted by September 25.

c. Congress may not adjourn sine die until the second budget resolution and reconciliation, if directed, is adopted.

6. Phase F. Binding limits on revenues and spending are put in place by the second budget resolution.—

a. The limits apply to revenues, budget authority, and outlays, and apply only to budget aggregates.

b. During this period the Budget Committees and the CBO scorekeep against the limits. A point of order against any measure that would cause them to be breached is the enforcement mechanism.

c. The Congressional Budget Act provides for revisions of the fiscal plan when necessary. Revisions may be needed to accommodate higher estimates due to changes in the economy or program participation rates, requests for supplementals by the President, or emergency situations. These revisions are most commonly adopted concurrently with the budget resolution for the new year, and should occur, therefore, by May 15.

IV. ASSESSMENT OF TIMETABLE IN THE CONGRESSIONAL BUDGET ACT

A. Performance under the timetable

1. The early good years.—

a. For fiscal year 1977, the first full year under the new Budget Act procedures including the fiscal year change, all the appropriation bills were enacted prior to the beginning of the new year. Timetable performance during the following two years was good, not meeting the standards of the Act, but a vast improvement over the years immediately preceeding the act.

b. This achievement was due in large part to heavy leadership involvement and a strong disposition on the part of most Members to make the new system work.

2. Recent lousy years.—Continuing resolutions are again a major concern. This year it looks as though not one single appropriation bill will be enacted prior to the beginning of the fiscal year. Delays in starting appropriation bills in the House have been caused in recent years by late adoption of first budget resolutions. This late start has been exacerbated by increasingly long delays between House passage and Senate action on appropriation bills. In some cases the Senate has not acted at all, e.g., it has not passed a regular appropriation bill for Labor-HHS or for Treasury-Postal Service since calendar year 1979.

B. Comments on Congressional Budget Act timetable dates

1. May 15—prior to budget year—President submits year-ahead authorizations.—Requirement for year ahead submission of authorizations has not worked well. The problem should be addressed in a more fundamental way.

2. November 10—President submits current services budget.—Requirement for the President to submit a current services budget on November 10 has been changed informally to require the submission of the current services budget to coincide with submission of the President's Budget in January.

3. January—President submits budget.—The President submits his budget 15 days after Congress convenes. Require submission 5 days after Congress convenes to give committees more time to deal with budget in preparation of their views and estimates to Budget Committees.

4. January—Early organization of House.—A major cause for delay in sessions beginning after election years has been late orga-

nization of the House. House could organize after election. Committees could organize immediately after House convenes prior to arrival of the budget.

5. March 15—Committees submit views and estimates.—Some flexibility with this date. Committees could gain ten days if budget arrives ten days earlier—in response to many complaints that March 15 falls too early for committees to consider plans for the session.

6. April 1—CBO submits report to Budget Committees.—The date comes too late for Budget Committees, which have worked out other arrangements with the CBO. Drop the date, since it is inappropriate to set in law the date for a report from a service agency to a committee.

7. April 10—President submits budget reestimates.—This budget update comes too late for use by the Budget Committee in preparation for the 1st Budget Resolution. OMB in fact has cooperated with Budget Committees and submitted their reestimates earlier. Keep the requirement in law, but set date earlier.

8. April 15—Budget Committee reports.—Drop this date. What really counts is the May 15 date for adoption of the first budget resolution. Let the Budget Committee manage its business accordingly.

9. April—Ten-day layover for Budget Committee reports.—Change to a five day layover. Ten days is too long given the time constraints on other phases of the process.

10. May 15—Authorizing committees report.—Drop this deadline. See new provision under June 1.

11. May 15—Adoption of 1st Budget Resolution.—Retain this deadline. Requirement for House consideration of revenue and spending bills to await adoption of 1st budget resolution would be modified by new provision. (See item #12.)

12. June 1—Fail-safe date for House consideration of appropriations bills.—On this date the House could begin consideration of appropriation bills, notwithstanding the status of authorizing legislation or the first budget resolution.

13. June—Requirement to hold floor action on any appropriation bill until they all have been marked-up by the committee and a summary report submitted to the House.—This provision has had little meaning because late authorizations have made it impracticable to include several major bills in the summary report. Retaining the provision in connection with the June 1 appropriation fail-safe provision (See item #12.) delays early start on floor consideration of appropriation bills as a trade-off for a summary report.

14. Labor Day Plus 7—Budget authority and entitlement bills are enacted.

September 15—second budget resolution is adopted.

September 25—Any reconciliation required by second budget resolution is completed.

Any combination of these three dates that assumes completed action on all three phases by September 30 is unworkable. If reconciliation is assumed to be a stop-gap measure for only occasional use after the second budget resolution, then it might be assumed to occur after the beginning of the fiscal year. If that were the case, then the other two dates could be set later accordingly.

[From the Wall Street Journal, Nov. 25, 1969]

CLOGGING THE FEDERAL MONEY MACHINE

(By Arlen J. Large)

WASHINGTON.—The Congressional habit of passing everything twice is causing increasing chaos in Uncle Sam's moneybags.

Readers of newspaper stories about Congress recognize the mysterious phrasing: "Congress gave final approval today to a sweeping $1 billion program of Federal aid to canners of strawberry jam. The actual money, however, must be appropriated in separate legislation."

But if that first bill hasn't passed until late in the year, it can hold up enactment of the appropriation bill that will nourish not only the sub-bureau in charge of strawberry jam but several whole Cabinet departments as well. In recent years this has been happening often, and this year is the worst.

The Government's fiscal year started last July 1, a date by which Congress legally should have passed every departmental appropriation. Yet the first of the 13 annual appropriation bills wasn't finally enacted until Sept. 29, and to date—in the waning days of this session—only three more have made it. Much of the Government is running on a "continuing resolution," a stopgap bill by which the tardy Congress, generally speaking, lets a department keep spending at last year's rate.

WASTING MONEY

The appropriations delay causes more than just inconvenience of bureaucrats. Until a department's appropriation is passed, it's impossible for officials to plan changes and improvements from the status quo. The resulting uncertainty and wheel-spinning waste a lot of money.

The appropriations mess has triggered an exchange of cheap political accusations. Democrats in Congress complain the bills are late because President Nixon dawdled in submitting his budget. Republicans say the Democrat-controlled Congress is dragging its feet and trying to sabotage the President.

There is barely enough truth in both charges to keep the argument going. The real culprit is the system in Congress itself, traditional procedures dating back to the 1920s when the entire Government budget ran less than $3 billion annually. Today the Atomic Energy Commission alone consumes almost that much, and today the Congressional system of handling the purse is strangling itself.

On paper the system makes sense. Congress legislates on the warp and woof of its committees—a division of parliamentary labor essential to the screening of the thousands of bills on hand. There are House and Senate committees in charge of matters relating to agriculture, space, defense, taxes, banking, foreign relations and other broad topics. These "legislative" committees can hold hearings on affairs under their jurisdiction, check how well a department is doing its job, recommend changes in the law governing old programs or draft bills setting up new ones. They are, in short, Congressional policymakers.

When such a committee votes to "authorize" a new Federal program, it also makes policy by saying how much money the program should have. "There is authorized to be appropriated from the general fund of the Treasury the sum of $1,000,000,000" would be the stock language in a Strawberry Jam Act.

An authorizing committee may assert some say over the amount it wants appropriated, but it's the powerful Appropriations Committees in each house that actually set the amount in separate bills (subject, of course, to full House and Senate approval—which usually, but not always, is granted). Thus the system is bound to produce tension and power struggles. On one side are legislative committees seeking to fatten programs under their jurisdictions. On the other are the Appropriations Committees, which claim the duty of rationing out the total Federal budget in the context of overall national priorities.

Though this split function was established in 1920, for years most of the control over funds remained with the Appropriations Committees. But the Government kept getting bigger, and authorizing committees kept creating more new programs in which they have a prestige stake. Thus began a trend that has contributed significantly to the current mess. A requirement for annual authorization bills for long-established programs. These bills, which typically inflate spending targets, seek to set itemized policy for the program in question.

During the '50s the armed services committees got both houses to agree that Pentagon hardware procurement must receive an authorization each year; it was the way these military-minded panels hoped to grab more influence over Pentagon weapons decisions. The task of first authorizing and then appropriating Pentagon money didn't work too badly; in the Senate, Georgia's powerful Richard Russell for years headed a cozy interlocking directorate of Senators who—wearing different committee hats—handled both bills.

A BREAKDOWN IN DELIVERY

But the system's seeming smoothness was due mainly to a lack of much controversy about Pentagon spending. When this year's dispute over the ABM and other weapons exploded, the system broke down—at least in terms of timely delivery of military cash. The Senate spent all summer debating the once routine authorization bill. Though there was quick House passage, a long conference over differences in the two versions delayed enactment of the bill until Nov. 6 (compared with Sept. 11 last year and May 23 in 1967). Only then did it become legal for the House Appropriations Commimttee to start moving the actual money bill through the pipeline, and the ABM argument must start all over again.

Dissatisfied with the sums being appropriated for Coast Guard ships, the House Merchant Marine Committee and the Senate Commerce Committee in 1963 engineered a requirement for an annual Coast Guard authorization bill. Decrying stingy appropriations for merchant marine subsidies, the same panels in 1967 won approval of a requirement for annual authorization of this money. Merchant marine boosters dismissed complaints that officials run-

ning the program would have to testify before four separate committees instead of just two. "The terrible plight of the American merchant marine cries out for a solution!" exclaimed Republican Rep. Jack Edwards of Alabama. "If it means an added burden on the legislative process, so be it."

The "burden on the legislative process" is magnified by the tradition of lumping together in one bill the money for two or three separate departments. This year's appropriation for the Departments of State, Justice and Commerce languishes in a House-Senate conference while Attorney General John Mitchell darkly accuses Congress of sitting on his funds for police training and other anti-crime efforts. Yet lawmakers of every strip are quite eager to cast this vote against crime; the main hang-up was the Commerce Departments merchant marine subsidy, which didn't get its annual authorization until Sept. 25.

Last year it was the National Science Foundation's turn to begin needing an annual authorization in advance of its yearly appropriation. Science-minded lawmakers wanted more say in the way the foundation distributes money for basic research; the chairman of the Senate subcommittee in charge of the NSF authorization this year lectured officials on the need to bend research toward more immediate solutions to social problems.

The NSF bill emerged from the Senate committee on July 2, but not until Sept. 18 did it pass the Senate. One reason for the delay: The chairman in charge was Sen. Edward Kennedy, whose July 19 accident at Chappaquidick interrupted his legislative chores. The stalled NSF authorization in turn helped delay progress of the grab-bag "independent offices" appropriation bill, which provides funds for a score of scattered agencies.

Legacies from the Great Society program also cropped up this year to choke the system. One example: The Appalachia regional uplift program, enacted in 1965. Its authorization needed to be extended this year, and that bill didn't pass until this month. The delay was another reason for the lag in the independent offices appropriation.

The seniority system enables a key individual to climb to chairmanships in both the authorizing and appropriating pipelines; if he vanishes, work stalls all along the line. A Far East junket kept Sen. Warren Magnuson of Washington away for an extended time after the official August vacation of Congress. He's chairman of the appropriations subcommittee that handles the Health, Education and Welfare Department money, which now is late. Mr. Magnuson also is chairman of the Commerce Committee, which for months has sat on a needed re-authorization of the 1966 auto safety law, and this in turn has helped delay the Transportation Department's money bill.

But Sen. Magnuson himself has a plan intended to "help unscramble the present situation of hesitancy, confusion and uncertainty" over the Federal budget. The Congressional calendar would be split into legislative and appropriations sessions, as with many state legislatures. The authorizing committees would work until November, then stop. All appropriations would be held back for forced-draft passage in November and December. The reform also

would change the Government's present July-to-June fiscal year to coincide with the calendar year.

Sen. Magnuson has been urging has plan for several years, but until lately it has had few takers. One objection: By keeping Congress in session during November and December of even-numbered election years, some of the voting would be done by defeated "lame duck" lawmakers whose terms officially don't expire until January.

A variation of the Magnuson plan, being touted by Rep. Louis Wyman of New Hampshire would avoid the lame duck problem. Legislative committees would have until June 1 each year to pass authorization bills. After that, it would be legal for the Appropriations Committees to start moving their measures whether anything has been authorized or not.

Some relief from the appropriations mess also may come by bending the custom of handling money bills in such huge multi-departmental chunks. Providing that a slow-moving re-authorization of Federal school aid can be passed early next year, House Appropriations Committee Chairman George Mahon of Texas has talked of splitting education money off from the traditional huge Labor-HEW appropriation and passing it in the spring. This would give school administrators time to plan for the school year starting in September—something the appropriations mess now prevents.

A LEADERSHIP PROBLEM?

But some veteran students of Congressional folkways think such structural reforms are less needed than tough, whip-cracking leadership in both the House and Senate. Speaker John McCormack is showing declining vigor. Senate Democratic Leader Mike Mansfield occasionally cracks the whip, but he's a gentle fellow who is reluctant to constantly push, push, push the senior autocrats who head the Senate's legislative committees.

The legislative rank-and-file should share some blame for this year's acute appropriations breakdown, too. The atmosphere on Capitol Hill for most of the year has been relaxed. President Nixon hasn't proposed much, certainly not requiring the frenzied output of the LBJ era. This was to be the year the lawmakers could just attend to "routine" housekeeping amid their foreign junkets and visits home, but it's the "routine" that now threatens to overwhelm them.

Congressional Budget Act of 1974 Timetable (Summary Outline)

(Summer 1983)

A. The Executive prepares and Congress gets an early start.
   May 15—Year ahead authorizations.
   November 10—Current services budget.
B. 15 days after Congress convenes, President submits budget.
C. Congress prepares first budget resolution.
   March 15—Committees submit views and estimates.
   April 1—Congressional Budget Office annual report.
   April 10—President submits update of budget.
   April 15—Budget Committees report.

May 15—Reporting deadline for authorizing legislation; Congress completes action on first budget resolution; consideration of budget bill prohibited prior to adoption of first budget resolution.

D. Congress enacts the budget.

"Promptly" after May 15—Committees divide budget resolution allocations.

"Soon" after May 15—Appropriations Committee reports summary of actions to the House.

July 15—President submits update of budget.

Labor Day plus 7—Congress completes action of appropriation and entitlement bills.

E. Congress reassesses and sets policy.

September 15—Congress adopts Second Budget Resolution.

September 25—Reconciliation is adopted if directed.

A. An Early Start (Actions taken during the calendar year preceding the year in which the fiscal year begins.)

MAY 15—YEAR AHEAD AUTHORIZATIONS

Provision

SEC. 607 of the Congressional Budget Act requires the Executive to submit by May 15 (of the calendar year preceding the beginning of the fiscal year to which they are intended to apply) proposals for extensions of ongoing programs. New programs must be submitted years in advance.

No sanction is specified for failure to comply.

Discussion

The Budget Act Conference Report states: "The managers believe that in the future it will be necessary to authorize programs a year or more in advance of the period for which appropriations are to be made. When this is done, Congress will have adequate time for considering budget-related legislation within the timetable of the Congressional budget process. The managers call attention to section 607 which requires advance submission of proposed authorizing legislation, and to the expectation that Congress will develop a pattern of advance authorizations for programs now authorized on an annual or multiyear basis." (p. 56)

The operation of this section has not contributed to more timely budgeting. Executive proposals typically include open-ended clauses rather than specific amounts, which many committees regard as crucial for action.

NOVEMBER 10—CURRENT SERVICES BUDGET

Provision

Sec. 605 requires the President to submit a current services budget to Congress by November 10.

The Joint Economic Committee is required to submit an economic evaluation of the current services budget to the Budget Committees by December 31.

No sanction is specified for failure to comply.

Discussion

The purposes of the current services budget are to give Congress an early start on its budget work and to provide "baseline" information against which the President's budget and alternatives can be compared.

The Appropriations and Budget Committees and the Joint Economic Committee have worked with the Office of Management and Budget in recent years to have this document submitted concurrently with the President's budget. It is "special analysis A" in the Fiscal Year 1984 Budget.

B. President Submits Budget

15 DAYS AFTER CONGRESS CONVENES—PRESIDENT SUBMITS BUDGET

Provision

Paragraph 1105 of Title 31 of the United States Code requires the President to submit his budget during the 15 days after Congress convenes.

There is no sanction specified for failure to comply.

Discussion

The President sometimes seeks extensions of this deadline. Congress generally accommodates such requests. Congress convenued on January 3 this year, and the budget was submitted on January 31.

The Executive argued that it would be difficult to continue to meet the 15-days-after-Congress-convenes deadline, since it lost three months (from June 30 to September 30) for budget preparation with the Budget Act change of the fiscal year from July 1 to October 1.

An important source of additional time in the early part of the budget cycle could be to require submission of the budget at approximately the time Congress convenes.

This additional up front time would be vital to the Congressional Budget Office and the General Accounting Office for timely analysis and processing of budget materials necessary for effective review by congressional committees.

C. Congress Prepares First Budget Resolution (January to May 15)

MARCH 15—COMMITTEES SUBMIT VIEWS AND ESTIMATES

Provision

Sec. 301(c) of the Congressional Budget Act requires all standing and joint committees to submit their views and estimates on matters within their jurisdiction to the budget committees by March 15. The Joint Economic Committee is also required to submit its views with regard to the appropriate fiscal policy for the United States.

No sanction is specified for failure to comply.

Discussion

These reports are generally timely.

It is sometimes argued that the report falls too early in the year for committees to provide conclusive guidance to the Budget Committees on the outcome of major budget issue; and their usefulness varies significantly.

Strategies for developing March 15 reports fall between seeking the highest level possible (such as the authorized amounts) for all programs, and seeking more realistic funding levels in hopes that the Budget Committees will give the report more weight in its considerations.

In the early years of the process, these reports sometimes were merely letters to the Budget Committee signed by a committee chairman. In recent years the reports have been more seriously regarded by many committees.

APRIL 1—CONGRESSIONAL BUDGET OFFICE ANNUAL REPORT

Provision

SEC. 202(f) of the Congressional Budget Act requires the Congressional Budget Office to submit a report to the Budget Committees on fiscal and budget priority alternatives and on tax expenditures by April 1.

No sanction is specified for failure to comply.

Discussion

These reports are submitted earlier in the year in order to accommodate the mark-up schedules of the Budget Committees.

APRIL 10—PRESIDENT SUBMITS UPDATE OF BUDGET

Provision

SEC. 601 of the Congressional Budget Act requires the President to submit all revisions and amendments of his budget.

No sanction is specified for failure to comply.

Discussion

The purpose of this section is to provide Congress with the latest information on the budget as it begins to prepare the first budget resolution. The update generally submitted earlier to accommodate the Budget Committees mark-up schedules.

APRIL 15—BUDGET COMMITTEE REPORTS

Provision

SEC. 301(d) of the Congressional Budget Act requires that the Budget Committees report the first budget resolution by April 15.

No sanction is specified for failure to comply.

Discussion

The reporting deadline has been met in all but three years. Last year was the latest (May 17); this year is the earliest (March 21).

Section 305(a) of the Congressional Budget Act establishes a 10 day (excluding Saturdays, Sundays and legal holidays) layover for reported budget resolutions.

The reporting deadline must be coordinated with the timing of Easter recess, the 10 day layover requirement and planned floor schedule.

It may be that a reporting deadline for the Committee specified in the Congressional Budget Act is not as critical to the timeliness of the budget process as the final deadline for congressional approval of the first budget resolution. Leave to the Committee the management of its business around the Easter recess and the 10 day layover requirement.

MAY 15: A CRITICAL DATE FOR THE CONGRESSIONAL BUDGET PROCESS SEVERAL PROVISIONS OF THE CBA KEY TO THIS DATE—REPORTING DEADLINE FOR AUTHORIZING LEGISLATION

Provision

SEC. 402(a) of the Congressional Budget Act requires that legislation authorizing budget authority to be reported by May 15 preceding the beginning of the fiscal year. Authorizations in omnibus social security legislation are exempted. (Sec. 402(e))

A point of order lies against legislation reported after May 15.

SEC. 402(b) provides that the Rules Committee may report a waiver of this section if it determines emergency conditions prevail.

Discussion

Except for technical waiver, this deadline is generally met.

This deadline was one of the most controversial features of the Congressional Budget Act. The Joint Study Committee prohibited action on authorizing legislation after the beginning of the fiscal year to which it applied. The House Rules Committee reported bill required enactment by March 31. A floor amendment requiring enactment by June 30 was defeated 106–300. The Senate Government Operations Committee reported a May 31 enactment deadline. The Senate Rules and Administration bill included a May 15 reporting date, which was adopted in conference.

Many committees report and/or enact authorizing legislation well in advance of May 15. It is questionable whether sufficient floor time would be available if all authorizing legislation were reported just prior to May 15, since the budget timetable provides for consideration of spending and revenue legislation during that period immediately following May 15.

This reporting deadline is also inconsistent with the House Rules which require that authorizing legislation be enacted prior to consideration of appropriation bills. These bills should be considered in June in the House if they are to be enacted prior to the beginning of the fiscal year.

In testimony before the Brooks Committee in 1971 on proposals to change the fiscal year, witnesses urged Congress to give higher priority to a more critical reason for late appropriations—that is, late authorizations.

a. Budget Director George Shultz opposed merely changing the fiscal year and called for (1) 2 to 5 year authorizations, (2) no dollar amounts in authorizations, (3) extension of authorizations a year in advance, (4) use of a fail safe system permitting appropriation bills to extend authorizations for one year if they were late.

b. Former Budget Director Charles Schultze also called the fiscal year change a band-aid, felt it did not address the problem, and called for (1) 3 year rolling authorizations, (2) advance appropriations to give states and local governments necessary lead times, (3) a fail safe system permitting appropriation bills to move forward after July 15 (The fiscal year began on July 1 then.)

c. Comptroller General Staats also called for (1) multiyear authorizations, (2) extension of authorizations one year in advance.

MAY 15—CONGRESS COMPLETES ACTION ON THE FIRST BUDGET RESOLUTION

Provision

Sec. 300 of the Congressional Budget Act (the timetable) states that Congress completes its action on the first concurrent resolution on the budget.

Sanction

Sec. 305(d) of the Congressional Budget Act requires the conferees on a budget resolution to report back their respective houses on all matters in agreement and in disagreement if they are unable to agree on all matters in conference with seven days after they are appointed.

Discussion

Adoption dates of first budget resolutions are as follows: Fiscal years 1976, 5/14; 1977, 5/13; 1978, 5/17; 1979, 5/17; 1980, 5/24; 1981, 6/12; 1982, 5/21; 1983, 6/23.

The sanction was employed once in connection with a second budget resolution. On October 19, 1979 a point of order was raised with respect to the budget resolution conference which had been under way since October 5. The chair stated that a point of order is not the appropriate sanction for Sec. 305(a); that provision was under the control of the conferees. A Budget Committee Member indicated that progress was being made, and the point of order was withdrawn. On October 23, the conferees reported back in disagreement and immediately insisted on the House position. Conferees were reappointed and the conference resumed. The conference report was adopted November 28, 1979.

Adoption of the budget resolution is critical to the process. The legislative history indicates concern about a fall back, if Congress did fail to achieve this action:

> The Joint Study Committee provided that if Congress did not adopt a resolution by May 1, the President's budget would be used until Congress did adopt a budget resolution.

The House passed bill deliberately provided no fall back for fear that those who favored the President's budget might deliberately procrastinate.

The Senate Government Operations Bill deliberately provided three fall backs: (1) Use lower figure for each item if both Houses had adopted a resolution; (2) If only one House had acted, use its figures; (3) If neither House had acted, use the President's budget—all until Congress adopted its budget resolution.

Senate Rules provided that the average figures would be used when both Houses had acted; and each House would act on the conference report so constructed.

Conferees decided to eliminate any mechanical fall back.

MAY 15—CONSIDERATION OF BUDGET BILLS PROHIBITED PRIOR TO ADOPTION OF FIRST BUDGET RESOLUTION

Sec. 303(a) provides that entitlement, budget authority, revenue, and debt bills cannot be considered prior to adoption of the first budget resolution.

A point of order lies against such legislation.

Discussion

Very late adoption of the first budget resolution can seriously impact the preparation and consideration of appropriation bills. Fiscal year 1983 is a case in point. The first budget resolution conference report was adopted on June 22.

Corrected committee allocations in the resolutions were available on June 24.

Independence Day recess began on June 24 and continued through July 11. The week of July 11 was devoted to the Urgent Supplemental for fiscal year 1982, which had been vetoed—floor consideration of the veto, conference and adoption of the conference report.

Since the allocation was severely restrained and the first resolution had become mandatory in nature, the Appropriations Committee subdivision to subcommittees required over a week to accomplish.

D. Congress Enacts the Budget (May 15 to Labor Day Plus 7)

"PROMPTLY" AFTER MAY 15—COMMITTEES DIVIDE BUDGET RESOLUTION ALLOCATIONS

Provision

Sec. 302(b) provides that committees divide the allocation under 302(a) of the budget resolution among subcommittees of Appropriations and subcommittees or major programs for other committees "as soon as practicable" and report these subdivisions "promptly" to the House. Consultation with the counterpart committee in the Senate is required in the preparation of this report.

No sanction is indicated for noncompliance.

Discussion

The 302(b) report is vital because it forms the scorekeeping base against which spending legislation is compared. Entitlement legislation which exceeds its 302(b) subdivision, for instance, is referred to the Committee on Appropriations.

Experience with the "prompt" compliance with section 302(b) has been checkered over the years.

The FY 1983 first budget resolution provided that spending bills could not be considered if a committee had not yet submitted its 302(b) report. The fiscal year 1984 first budget resolution does not include this provision.

SOON AFTER MAY 15—APPROPRIATIONS COMMITTEE REPORTS SUMMARY OF ACTIONS TO THE HOUSE

Sec. 307 of the Congressional Budget Act requires that "to the extent practicable" the Appropriations Committee will complete action on all of its bills in subcommittee and full committee and report a summary of such actions to the House compared to the first budget resolution—prior to reporting its first appropriation bill to the House.

No sanction is specified.

Discussion

Reports were filed in the early years of the Congressional Budget Act, not in recent years. Late consideration of major appropriation bills due to late authorizations deprived the reports of much of their meaning.

LABOR DAY PLUS SEVEN—DEADLINE FOR ENACTMENT OF APPROPRIATION AND ENTITLEMENT LEGISLATION

Provision

Sec. 309 of the Congressional Budget Act requires enactment of entitlement legislation and appropriation bills by Labor Day plus seven days. The deadline does not apply to appropriation bills if authorization legislation "has not been timely enacted."

No sanction is indicated.

Discussion

The House passed bill had required enactment by August 1 along with enactment of authorization legislation by March 31. The Senate required enactment by August 7 of five days prior to the beginning of the August recess, along with reporting of authorization by May 15.

This deadline virtually has had no application with regard to appropriation bills.

Notes

E. CONGRESS REASSESSES AND SETS POLICY (SEPT. 10 TO SEPT. 25)

SEPTEMBER 15—CONGRESS ADOPTS SECOND BUDGET RESOLUTION

Provision

Section 310(b) of the Congressional Budget Act requires adoption of a second budget resolution by September 15.

Sec. 310(f) makes it out of order to consider resolutions providing for sine die adjournment of either House unless action has been completed on the second budget resolution.

Discussion

Adoption dates for second budget resolutions have been as follows: Fiscal years 1976, 12/16; 1977, 9/16; 1978, 9/15; 1979, 9/23; 1980, 11/28; 1981, 11/20; and 1982, 12/10.

The FY 1983 and FY 1984 House passed first budget resolutions included an optional second budget resolution feature, which permitted the first budget resolution to be considered the second on October 1, if Congress had not adopted a second budget resolution.

SEPTEMBER 25—RECONCILIATION IS ADOPTED, IF DIRECTED

Provision

Sec. 310(d) provides that if the second budget resolution directs committees to determine and recommend changes in laws, bills or resolutions, then the reconciliation measure reported by such committees must be adopted by September 25.

Sec. 310(f) makes it out of order to consider resolutions providing for sine die adjournment of either House unless action has been completed on the second budget resolution.

Discussion

Reconciliation as a device to reconcile budget resolutions with spending and revenue actions in the final stage of the congressional budget process has never been used in a major way. Beginning with FY 1981 it has been employed in connection with the first budget resolution.

PRESENTATION BY PETER C. ROBINSON, ASSISTANT PARLIAMENTARIAN, OFFICE OF THE PARLIAMENTARIAN, HOUSE OF REPRESENTATIVES

The subject of my presentation is reconciliation and other enforcement procedures under the Congressional Budget Act, Public Law 93-344. I will cover allocations of spending responsibility to committees, spending ceilings and revenue floors, waivers of enforcement provisions, and finally, reconciliation. By way of introduction, the focus of my discussion is on the procedural aspects of the budget process. The provisions of the Budget Act, especially titles III and IV, are a part of the Rules of the House and Senate, and are incorporated by reference into the resolution which each new House of Representatives adopts to establish its rules of proceedings under the Constitution of the United States. These rules

are not immutable but are subject to change according to the will of each Congress, and my talk will reflect some of the changes in the budget process since its inception. The Office of the Parliamentarian works closely with the Committee on the Budget, the Committee on Rules, the congressional leadership, and the membership at large in interpreting the complex set of procedures established by the budget process. My comments will be largely restricted to the House procedures and experience under the Budget Act.

The final adoption of a concurrent resolution on the budget by Congress sets in motion a number of enforcement procedures, some by automatic application of the Budget Act, and others by operation of special procedures contained in a budget resolution. Many of these procedures are triggered by, or otherwise relate to, the allocation of spending to individual committees which must appear in a conference report on a budget resolution.

I. SECTION 302 ALLOCATIONS AND RELATED PROCEDURES

A. Function of Budget Committee Conferees (Section 302(a) of the Congressional Budget Act)

Under section 302(a) of the Budget Act, the joint statement of managers accompanying a conference report on a budget resolution must contain allocations, based on the content of the resolution, of budget outlays and authority to each committee of the House and Senate with jurisdiction over legislation providing budget outlays and authority. The levels and breakdown of budget authority and outlays assigned to each committee govern subsequent determinations on the applicability of points of order and other procedures to legislation reported by the appropriate committee. In the event that conferees on a budget resolution file in so-called "technical disagreement", having agreed to budgetary figures which are beyond the scope of differences under House Rules and which must be brought back to both Houses for disposition by motion, the allocation contained in the joint statement will still apply if both Houses do in fact adopt the compromise text carried in the joint statement of managers. If a final text is adopted which does not correspond to a conference report or amendment carried in a joint statement (as for example where differences are resolved without a conference, or a conference report is defeated), the Committee on the Budget must otherwise assure that an appropriate allocation is inserted in the Congressional Record and given the status of a 302(a) allocation (by unanimous-consent request or special order).

The language of section 302(a) affords little guidance on the actual composition of the conference allocation. For the committees of the Senate, the allocation prepared by the Senate Committee on the Budget has been a simple breakdown of total amounts of budget authority, budget outlays, and entitlement authority for each committee. The particular needs of the budget process in the House of Representatives, along with the increased sophistication of scorekeeping methods, have resulted in a highly detailed system of allocation in the House. For example, the allocation to the Committee on Public Works and Transportation allocation for fiscal year 1983, accompanying S. Con. Res. 92, the first budget resolution for that year, reads as follows:

ALLOCATION OF SPENDING RESPONSIBILITY TO HOUSE COMMITTEES PURSUANT TO SEC. 302(A) OF THE CONGRESSIONAL BUDGET ACT, FISCAL YEAR 1983

[In millions of dollars]

	Budget authority	Outlays	Entitlement authority
HOUSE PUBLIC WORKS AND TRANSPORTATION COMMITTEE			
Current level:			
270 Energy	1,622	1,500	0
300 Natural resources and environment	80	83	0
400 Transportation	4,718	−5	71
450 Community and regional development	6	9	0
Subtotal	6,426	1,587	71
Discretionary action:			
300 Natural resources and environment	−370	−370	0
400 Transportation	5,285	0	1
Subtotal	4,915	−370	1
Committee total	11,341	1,217	72

Not only is the allocation laid out by function, but it also distinguishes between "current level" and "discretionary action" for each assignment of budget authority, budget outlays, and entitlement authority. In short, the committee is told what the budget process expects with respect to those expenditures over which the committee has control. Current level items are those required by existing law, and which are mandatory in nature. Discretionary action refers to the limits within which the committee must remain, in providing new budget authority, outlays, and entitlement authority for programs not required by existing law. Some have disputed the authority of the Committee on the Budget to distinguish between controllable and non-controllable assignments, since section 302(a) of the Budget Act does not specifically give that authority to the conferees, and since the spending committees are directed in section 302(b) to make their own breakdown between controllable and uncontrollable categories of spending. The Budget Act does not however specifically confine the budget conferees in their composition of allocations, which could arguably be as detailed as they consider appropriate. The system is designed in order that the spending committees, particularly the Committee on Appropriations, are not penalized in making their spending decisions by factors beyond their control, such as unanticipated, but statutorily required, increases in mandatory programs by operation of a formula. Furthermore, the decision as to whether specific spending is or is not controllable has important ramifications for budget enforcement, and should be made in a consistent and neutral way.

Allocations do not on their face address specific programs, although the figures obviously carry out assumptions about all major legislation within a committee's jurisdiction. The allocation carried above, for the Committee on Public Works and Transportation, does illustrate one way in which allocations may assume action on certain legislation. The Committee was assigned a negative figure of 370 million in discretionary budget authority and outlays. This

reflected the assumption of the budget conferees that legislation within the jurisidiction of the Committee imposing new user fees would be enacted (which also affected the total level of budget authority and outlays provided in the resolution for total spending, since user fees, as proprietary receipts, translate into negative budget authority and outlays). In the event that the Committee on Public Works and Transportation was unable or unwilling to enact such user fees, other assumed spending legislation reported by that committee might be penalized. The Committee therefore reacted strongly to this action by the budget conferees in their report on the spending allocation (H. Rept. 97-659). This is an isolated example of what actually occurs frequently; assumptions about the enactment of legislation to cut spending which are not realized must reduce the level of positive new spending, where net calculations are made about spending as a whole, and about spending by each committee.

B. Function of standing committees (Section 302(b) of the Congressional Budget Act)

Each standing committee receiving an allocation by the conferees must file a report in the House subdividing its allocation as soon as practicable, under section 302(b) of the Budget Act. Under the rules and precedents, a committee should meet in formal session, with a majority quorum present, to approve its report (while the report cannot be formally challenged in the House on a point of order, the question whether a valid report was filed could become an issue in applying enforcement procedures). Like any report before a committee for approval, the proposed report is subject to amendment in committee and may contain dissenting or additional views. The Committees on Appropriations are required to subdivide their allocations among subcommittees, and between controllable and uncontrollable amounts within those subdivisions. Other standing committees are given the option of dividing among subcommittees or among programs, with the same subdivision of controllable and uncontrollable amounts within that breakdown.

As I have already mentioned, the 302(a) allocation for House committees now contains its own split between "discretionary" spending and "current level" (corresponding to controllable and uncontrollable amounts). Nothing in section 302 requires the spending committees to follow that distribution, but there appears to be general agreement on whether specific programs are mandatory or not.

What function do these allocations serve? To begin with, they constitute a framework for all spending for a fiscal year based on the appropriate budget resolution. Through the device of allocations the Budget Act requires committees to sit down and to make formal decisions at one time about the spending legislation they hope to submit to the House. Of course, a committee may file a revised 302(b) report, but again based on a formal decision about changed expectations. But there are also three procedural sanctions which are based upon spending allocations: (1) referral of entitlement legislation to the Committee on Appropriations; (2) deferred enrollment; and (3) prohibition against consideration of

spending legislation without a 302(b) report, if so provided in the budget resolution.

C. Referral of entitlements to Committee on Appropriations

Section 401(b)(2) of the Congressional Budget Act requires that legislation containing new entitlement spending authority in excess of the reporting committee's 302(b) allocation be referred to the Committee on Appropriations for 15 legislative days. The Committee on Appropriations has the authority to report an amendment limiting the total amount of new spending authority provided in the bill.

The referral is a non-discretionary duty placed on the Speaker, although he must of course consult with the Committee on the Budget to determine how a bill compares with a committee's remaining allocation. Any amount of new entitlement authority, no matter how small, will cause a referral if the allocation does not accommodate the bill as reported by the committee (committee amendments are taken into account in determining the level of entitlement authority contained in the bill). The Speaker may discharge a bill, which has already been placed on the Union Calendar, and make the referral where the violation was overlooked when the bill was reported, or where the bill was placed on the Calendar but not considered before a budget resolution with which it was inconsistent was finally adopted.

If the spending committee has not yet filed its 302(b) report, but the entitlement authority in the bill exceeds the committee's entire allocation of new entitlement authority in the budget resolution conference report, the referral must be made. How a committee has progressed on other spending legislation has a great deal to do with the issue of referral. I have already mentioned that a spending committee may receive a net allocation which reflects assumptions that a committee will report legislation reducing spending. New entitlement legislation assumed in a budget resolution may nevertheless be referred to the Appropriations Committee if the spending committee has not yet reported certain legislation decreasing existing entitlement programs.

Finally, the role of the Committee on Appropriations, besides its power to delay the consideration of entitlement legislation, is simply to recommend to the House the adoption of a committee amendment, which must carry or fall on its own merit on the House floor.

D. Deferred enrollment

Section 301(b)(1) of the Congressional Budget Act allows, but does not require, a procedure for postponing the enrollment of certain or all bills containing new entitlement spending authority, until the second budget resolution for the fiscal year has been adopted (or until reconciliation legislation, if required by the second budget resolution, has been passed by both the House and Senate). The first budget resolution has typically provided that entitlement bills exceeding the entitlement allocation of the committee with subject matter jurisdiction not be enrolled until adoption of the second budget resolution. Very few bills have been delayed by this provision. For those who are not familiar with the term enrollment, it is

the process by which a bill, which has passed both Houses in identical form, is prepared for presentation to the President for his signature. The bill is prepared by the Clerk of the House, if the bill originated in the House, or by the Secretary of the Senate, if the bill orginated in the Senate, and printed on special parchment paper by the Government Printing Office. It is then signed, first by the Speaker and then by the Vice President or President pro tempore, and presented to the White House by a messenger of the originating House.

As with various other enforcement provisions which depend on the relationship between the budget resolution and individual spending legislation, the Speaker must look to the Committee on the Budget to determine whether a specific entitlement bill, compared with a committee's remaining allocation, will breach the entitlement authority remaining to the committee.

What is the purpose of deferred enrollment? Presumably the second budget resolution, or reconciliation legislation required by the second budget resolution, may require that changes be made in entitlement spending passed by both Houses, to conform to Congress' new decision about the level of spending which is appropriate. As a matter of fact, section 310 of the Congressional Budget Act envisages a reconciliation resolution, which may be required by the second budget resolution, directing the Clerk of the House or Secretary of the Senate, whichever is appropriate, to make specified changes in bills or resolutions which have not been enrolled. This authority has never been utilized in a budget resolution.

Since enrollment only occurs in one House, it would be conceivable for the House of origination to allow enrollment to occur, there being no breach of the spending committee's allocation in that House, where the counterpart committee in the other House did not have sufficient entitlement allocation remaining to accommodate the legislation. In such a case, the second House might determine that in order to enforce the postponed enrollment requirement it would be necessary for the Presiding Officer to withhold his signature until adoption of the second budget resolution.

Postponed enrollment may of course be waived as any other rule. In at least one case, the House by unanimous consent waived the provision in order to allow a continuing appropriations joint resolution to be presented to the White House (where a legislative provision creating a new entitlement had been adopted).

E. Point of order against consideration of legislation for failure to file 302(b) reports

Section 301(b)(2) of the Congressional Budget Act, the so-called "elastic clause", allows a concurrent resolution on the budget to contain deferred enrollment procedures, and "any other procedure which is considered appropriate to carry out the purposes" of the Act. Pursuant to this authority, budget conferees have on several occasions agreed to an enforcement provision in a budget resolution prohibiting the consideraton of spending legislation before the reporting committee has filed its 302(b) allocation report.

II. SPENDING CEILINGS AND REVENUE FLOORS: POINTS OF ORDER UNDER SECTION 311

Section 311 of the Budget Act is perhaps the most important automatic enforcement mechanism under the Budget Act, since it is the one which requires actual spending legislation to conform to the overall budgetary limits which Congress has set for itself. The provision affects bills providing new budget authority, new entitlement authority, and revenue increases or decreases. Budget authority is typically, but not always, provided in appropriation bills; some bills not considered by the Appropriations Committee, such as bills providing direct obligational contract authority out of special trust funds, provide direct budget authority as well. The term "revenues" generally applies to changes in tax or tariff laws (and not to "proprietary receipts" such as user fees, permit fees, etc., which are considered as negative budget authority).

Legislation providing entitlement authority creates an obligation on the part of the Federal Government to make a payment to a person or entity meeting designated qualifications, and the obligation exists whether or not appropriations are subsequently made to fulfill those obligations (if the legislation specifically provides that any payments are subject to amounts provided in advance by appropriation acts, it does not create entitlement authority). Whether or not a bill creates a program, or expands or extends an existing program, to create such a governmental obligation depends on the actual text of the legislation.

In determining whether a point of order lies under section 311(a), the Chair again looks to the Budget Committee, since section 311(b) specifically requires that the calculation of outlays and revenues for the purpose of that section be made on the basis of estimates made by the Committee. The point of order only applies after adoption of the second budget resolution for a fiscal year, or after final action on reconciliation legislation required by a second budget resolution. Recent experience with the Budget Act has produced a situation where only one budget resolution receives final approval before the beginning of the fiscal year. Pursuant to their authority to include procedures appropriate to carry out the Budget Act, the Committees on the Budget have begun including a provision in the first budget resolution triggering the prohibition in section 311 as of the beginning of the fiscal year based on the levels contained in the first budget resolution. This procedure only applies if no second budget resolution is adopted by that time. Furthermore, the prohibition against consideration of a spending bill does not apply, under the procedure as drafted, where the reporting committee does not exceed its own allocation of budget or entitlement authority. In the absence of a second budget resolution, therefore, a committee is penalized only for its own spending actions and not for those of Congress as a whole.

As far as the Committee on Appropriations is concerned, that committee has jurisdiction over the rescission or deferral of appropriated funds, as well as appropriations of new budget authority. Since section 311 is a net test (the total amount of new budget authority carried in the bill), an appropriation bill may carry new spending which would otherwise be subject to a point of order but

which is counterbalanced by the repeal or postponement of previous appropriations also carried in the bill. In such a situation, an amendment to strike a rescission in the bill, thereby increasing the amount of budget authority to a level over the ceiling, would be subject to a point of order under section 311 of the Budget Act, and the Chair has so ruled in the House and in the Senate.

Other instances of rulings on section 311 of the Budget Act are rare. It is generally well known what relationship major spending bills bear to the relevant budget resolution. The Chairman of the Committee on the Budget periodically advises the Speaker by letter (commonly termed the "Parliamentarian's status report"), also inserted in the Congressional Record, as to the current level of spending. Therefore, bills which do breach the spending ceiling or revenue floor either receive waivers for consideration or are not considered at all.

III. WAIVERS OF ENFORCEMENT PROVISIONS

In the Senate, a privileged motion is available, under section 904(b), to waive any provision of titles III or IV of the Budget Act (containing the enforcement provisions).

In the House, waivers are obtained by unanimous-consent request, special orders reported from the Committee on Rules, or suspension of the rules. Generally speaking, a waiver against initial consideration of a bill in the House for failure to comply with a specified provision of the Budget Act protects the same provisions in the bill at a subsequent stage of consideration (consideration of a conference report for example). One exception to this rule applies under section 311 of the Budget Act, which, unlike other provisions of the Budget Act, specifically applies to conference reports as well as to bills, resolutions, and amendments. There is a sensible reason for this difference in treatment. The decision whether Congress is about to violate its overall spending limit must be made every time Congress considers spending legislation, and must take into account events which have transpired between initial and final consideration of a particular legislative item.

The fact that points of order lie under the Budget Act against bills and amendments has required the Committee on Rules in the House to recommend a great many "technical" waivers of the Budget Act, where a bill as introduced violated the Budget Act, but the bill as modified by committee amendment did not. Although there have been a significant number of Budget Act waivers adopted by the House, a large number fall within this category. The Committee on the Budget actively polices the development of legislation through the House and Senate and encourages the consideration of committee amendments to remove or correct features which the Budget Act prohibits.

IV. RECONCILIATION PROCEDURES

Reconciliation is a procedure which the authors of the Budget Act originally intended, under section 310, to take place in conjunction with the second budget resolution for a fiscal year. As I have previously pointed out, it has become uncommon for a second budget resolution to be in place before the beginning of the fiscal

year in question. In this respect, Congressional practice has diverted from the timetable envisioned in the Budget Act and resulted in major reconciliation legislation inspired by the first budget resolution for a fiscal year.

A. Reconciliation instructions and legislation

An appendix attached to this article describes the evolution of reconciliation instructions actually adopted by the Congress. The first budget resolution for fiscal year 1981 contained, for the first time, reconciliation instructions in a first budget resolution. The provision was included under the elastic clause, section 301(b)(2) of the Budget Act, which authorizes the inclusion of procedures which are appropriate to carry out the purposes of the Budget Act. To the extent that procedures under such a new body of congressional law as the Budget Act can be considered traditional, it has become standard practice for Congress to adopt reconciliation instructions in a first budget resolution (the second budget resolution for fiscal year 1976 did direct the taxwriting committees to submit revenue-reducing reconciliation legislation).

In drafting reconciliation instructions and procedures, the Committees on the Budget utilized many of the procedures provided in section 310 of the Budget Act, specifically applicable to a second budget resolution. One feature of that section which has not been utilized, and which was obviously intended only for a second budget resolution, is the concept of a "reconciliation resolution", a concurrent resolution directing the Clerk of the House or Secretary of the Senate, as the case may be, to make specified changes in bills and resolutions which have not been enrolled. It is fair to assume that this provision was intended to operate in conjunction with deferred enrollment of certain or all spending bills, until adoption of a second budget resolution, in order to bring spending passed by Congress but not yet enacted in line with the levels contained in a second budget resolution. Such a procedure makes no sense when instructions are contained in the first budget resolution, considered (hopefully) before spending decisions for the next fiscal year begin to be made.

Under reconciliation, specific committees of the House and Senate are directed to submit legislation decreasing a total amount of spending or changing revenues within their jurisdiction (specific programs are not targeted in the language of the reconciliation instructions).

As indicated by chart A, reconciliation instructions have on occasion directed committees to reduce authorizations in order to cut budget authority, although section 310 of the Budget Act only covers changes in direct budget authority, entitlement authority, and revenues (for instructions in a second budget resolution). This modification allowed reconciliation to cover a much wider range of federal programs than it might have otherwise. Since more than one committee is usually instructed, committees are directed to submit their legislation not to the House but to the Budget Committee of the House in question, which then packages the legislation without substantive change and reports a reconciliation bill to the House or Senate, as the case may be. Committees are given a certain date by which to report to the Committee on the Budget,

and in some cases certain committees have been given the flexibility of reporting directly to the House or Senate and seeking separate consideration.

Section 310 of the Budget Act confines reconciliation legislation to decreases in spending for the fiscal year in question. Practice under reconciliation has demonstrated the need for reconciliation legislation to take into account future years as well, and much reconciliation legislation has actually been enacted into law as permanent statutory law, or covering several fiscal years. In some areas of Federal assistance, spending decreases may be accomplished by permanent changes in the way the law operates, rather than through actual spending ceilings or reductions in authorization or entitlement levels. Congressional experience has also demonstrated that making major decisions about the levels of spending under government-wide programs necessitates the simultaneous consideration of policy changes in the law to carry out such decisions. Since the Committees on the Budget have no authority to separate out legislative proposals submitted to them along with spending cuts, the House and Senate must through the normal legislative process determine the scope of legislation which will be permitted to remain in reconciliation bills. And if a committee submits legislation which may be construed as insufficient response to the instructions to cut spending, it is up the Committees on the Budget and Rules, and the House itself, to consider what changes may be necessary to revise the legislation submitted to them. A committee may simply report to the Committee on the Budget that it has already achieved its instructions by obtaining the passage of legislation apart from the reconciliation process, and that route has been satisfactorily undertaken by a number of committees. Other committees have successfully argued, particularly through the first efforts at reconciliation, that making the kind of spending decisions required of them could not be separated from the remainder of decisions to be made about the operation of the affected programs for the relevant and subsequent fiscal years.

B. Procedures for consideration of reconciliation legislation

The Committee on the Budget meets formally to report to the House a bill consisting of the text of the various proposals submitted by the spending committees. The Budget Act contains special procedures for the Senate to expedite the consideration and passage of reconciliation legislation. In the House, the Committee on Rules has performed the task of recommending to the House suitable procedures for consideration, typically under "closed" rules, limiting and specifying the extent to which amendments are permissible. Since reconciliation legislation is likely to be omnibus in nature, covering a wide variety of committee jurisdictions and legislative proposals, the germaneness rule in the House of Representatives would operate to allow amendments not necessarily related to reconciliation objectives, without the protection of a restrictive rule.

Once the House and Senate have passed their respective reconciliation bills, sending the proposals to conference may be a complex task due to the numerous parties involved in authoring the legislation. Conferees from the Committee on the Budget have been ap-

pointed as general conferees, authorized to confer on all parts of the legislation (this would not necessarily be the case in the event that reconciliation became part of other major legislation not considered under reconciliation procedures). Members of other standing committees with jurisdiction over individual portions of the legislation must receive representation on the conference, but only for those portions. In the case of proposals falling within the jurisdiction of more than one committee, care must be taken to ensure that the proper majority of conferees have assented to the final product. The task of reconciling committee jurisdiction over reconciliation has not been insignificant, since the legislation does not travel the ordinary route of committee consideration and reporting directly to the House. The ordinary responsibility of the Speaker of the House to make joint referrals and sequential referrals of committee-reported legislation does not exist under reconciliation (where more than one committee is instructed). Thus the ordinary accommodation of conflicting committee interests must be resolved in a less formal and binding manner, although conference committee appointments on reconciliation can resolve some of those conflicts.

One of the greatest problems with reconciliation when first used was the sheer mass of legislation prepared and considered without the time and procedural restraints which ordinarily accompany the legislative process. Larry Filson, the Legislative Counsel who did much of the legislative drafting associated with reconciliation and who helped me with this presentation, recounted that the signature sheets for the conference report on one reconciliation bill weighed over five pounds, and that a heavy hand truck was not sufficient to deliver the filing copies to the House of Representatives. It has been suggested that everything after the 25th page of a reconciliation bill should be subject to a point of order. I have no suggestions to make as to the ways in which the Budget Act, or the rules of the House, could be modified to place specific requirements and limits on the content and consideration of reconciliation legislation, (although it might be reasonable to suggest that inclusion of reconciliation instructions in a first budget resolution be specifically authorized by the Budget Act). I will simply close with the suggestion that the Budget Act and the rules of the House have in most respects proved flexible enough to accommodate the goals set by Congress for itself in reconciliation.

CHART A

RECONCILIATION INSTRUCTIONS

Section 310(a) of the Budget Act allows instructions in the second budget resolution to committees to recommend changes in laws within their jurisdiction to achieve changes in:

(1) New budget authority for the fiscal year covered by the resolution.

(2) Budget authority initially provided for prior fiscal years.

(3) New entitlement authority which is to become effective during the fiscal year covered by the resolution.

(4) Revenues.

The recommendations may be in the form of a reconciliation bill (to make changes in laws) or in the form of a reconciliation resolution (to make changes in bills not yet enrolled).

In 1975

The 2d budget resolution for fiscal year 1976 directed the House Committee on Ways and Means and the Senate Committee on Finance to submit legislation to their respective Houses to decrease revenues.

In 1980

The first budget resolution for fiscal year 1981 directed various committees to recommend (for fiscal year 1981):

(1) Changes in laws within their jurisdiction which provide entitlement authority (Not "new" entitlement authority) to reduce spending for fiscal year 1981.

(2) Program reductions in laws or in reported bills within their jurisdiction to reduce spending for fiscal year 1981.

(3) Changes in laws within their jurisdiction (House Ways and Means and Senate Finance) to increase revenues for fiscal year 1981.

(4) Limits on appropriations (Senate Appropriations Committee) (Postal Service subsidies) for fiscal year 1981.

(5) Changes in laws within their jurisdiction which provide entitlement authority to reduce spending or equivalent savings legislation to reduce spending (Senate Veterans' Affairs) for fiscal year 1981.

The third budget resolution for fiscal year 1980 directed the House and Senate Appropriations Committees to report legislation:

(1) Reducing spending for fiscal year 1980 contained in laws or in reported bills or resolutions within their jurisdiction.

In 1981

The first budget resolution for fiscal year 1982 directed various committees to report:

(1) Changes in laws within their jurisdiction which provide entitlement authority to reduce budget authority and outlays for fiscal year 1982, fiscal year 1983, and fiscal year 1984.

(2) Changes in laws within their jurisdiction sufficient to reduce appropriations for programs authorized so as to achieve savings in budget authority and outlays for fiscal year 1982, fiscal year 1983, and fiscal year 1984.

In 1982

The first budget resolution for fiscal year 1982 directed various committees to report:

(1) Changes in laws within their jurisdiction which provide entitlement authority sufficient to reduce budget authority and budget outlays for fiscal year 1983, fiscal year 1984, and fiscal year 1985.

(2) Changes in laws within their jurisdiction to require reductions in appropriations for programs authorized as to achieve savings in budget authority and outlays for fiscal year 1983, fiscal year 1984, and fiscal year 1985.

(3) Changes in laws within their jurisdiction (House Ways and Means Committee and Senate Finance Committee) sufficient to increase revenues for fiscal year 1983 (with Senate Finance directed to recommend changes in laws to increase revenues in fiscal year 1984 and fiscal year 1985 as well, and with the finding directed at House Ways and Means that the prospect of unacceptably high deficits requires additional revenues for fiscal year 1984 and fiscal year 1985).

CHART B.—STATISTICS ON BUDGET ACT WAIVERS GRANTED SINCE IMPLEMENTATION OF THE CONGRESSIONAL BUDGET ACT OF 1974 JULY 28, 1982

	94th Rules	Waivers	95th rules	Waivers	96th rules	Waivers	97th rules	Waivers
303(a)	6	6	5	9			1	1
303(a)(1)							2	2
303(a)(2)			1	2	1	1		
303(a)(3)								
303(a)(4)			3	6	8	13	1	7
305(a)					1	1	1	1
311(a)					4	6	6	11
401	9	9	1	1				
401(a)			20	25	23	33	13	20
401(b)(1)	9	[1] 12	19	25	15	22	2	3
402(a)	5	5	53	60	80	93	24	29
Rules with budget waivers	26		79		95		43	
Budget waivers granted		32		127		168		74

[1] During 94th Congress waivers of section 401(b) were not specified by paragraph. Therefore, there were no waivers of 401(b)(1); all waivers were of 401(b).

WAIVERS OF SECTION 311 OF THE CONGRESSIONAL BUDGET ACT (JULY 28, 1982)

Congress and resolution	Bill	Bill title	Description of waiver
94th Congress			
95th Congress			
96th Congress:			
H. Res. 242 [1]	H.R. 111	Panama Canal Act of 1979	311 against bill. 311 against committee substitute.
H. Res. 274	H.R. 111	Panama Canal Act of 1979	311 against bill. 311 against committee subsitute.
H. Res. 529	H. Con. Res. 204	Nondiscriminatory treatment of products of China.	311 against resolution.
H. Res. 688	H.J. Res. 554	Fiscal year 1980 FTC appropriations bill.	311 against resolution.
97th Congress:			
H. Res. 137	H.R. 3512	Supplemental appropriations bill	311(a) against initial consideration.
H. Res. 355	H.J. Res. 389	Agriculture supplemental appropriations.	311(a) against H.J. Res. 389.
	H.J. Res. 391	Department of Labor supplemental.	311(a) against H.J. Res. 391. 311(a) against conference reports on H.J. Res. 389 and H.J. Res. 391 with proviso: if the report does not provide budget authority in excess of that provided in joint resolution as reported from House Appropriations Committee and if report would not cause budget outlays to exceed the budget outlays which would be caused by House reported resolution.
H. Res. 356	H.J. Res. 592	HHS supplemental appropriation	311(a) against joint resolution and conference report on joint resolution if budget authority is not in excess of that reported by House Committee on Appropriations.

WAIVERS OF SECTION 311 OF THE CONGRESSIONAL BUDGET ACT (JULY 28, 1982)—Continued

Congress and resolution	Bill	Bill title	Description of waiver
H. Res. 415	H.R. 5922	Urgent supplemental appropriations.	311(a) against initial consideration to protect certain paragraphs.
H. Res. 461	H.R. 5922	Urgent supplemental appropriations.	311(a) against waived against Boland amend. and 311(a) waived against Lowry amendment.
H. Res. 502	H.R. 5922	Conference report on supplemental.	311(a) against conference report.

[1] H. Res. 242 was not condsidered by House. H. Res. 274 superseded H. Res. 242 and the latter resolution was laid on the table on May 17, 1979.

PRESENTATION BY SHIRLEY RUHE, ASSOCIATE DIRECTOR FOR BUDGET OPERATIONS AND PROCESS, HOUSE BUDGET COMMITTEE

This is a presentation on budget mechanisms, incorporated in the Budget Impoundment and Control Act.

Before I begin to outline the mechanisms in the Act, I want to focus you on several questions to keep in mind as we discuss this.

In the first place, why control? Why do you want to control and what do you want to control? It is easy to give instant answers until you try to apply the generality to the specific circumstance. You may be in favor of strong budget control. But you need to ask yourself how often you want to force Congress to face difficult procedural votes.

Another question to address is: How much control is appropriate? Do you want to rely on institutional sanctions in large part? You could compare the budget process to a finely-tuned motor. If the valves don't work or burn out, it still works, but it sort of limps along.

If the timing is off, it may work, but not very well, and if the timing is way off, it breaks down.

The point I try to make here is to decide which parts of the budget process serve the same purpose as the carburetor, which is necessary to the functioning of the motor. This is where you want strong procedural controls. Which parts are the valves which can malfunction but, the process still works.

Finally, I believe you want to think about the trade-offs when you consider budget reform and in particular budget control. Control may not be your *a priori*. There are other problems to consider such as flexibility and the politics, the timetable involved, the workload, and also program stability. Richard Bolling made a significant statement back in 1973 when he was talking about the conference version of the Budget Act:

"The ironclad rule of consistency just will not work. First, you have to have a workable process. Second, budget reform must not become an instrument for preventing Congress from expressing its will.

The third objective is to make Congress informed about and responsible for its budget actions but not take away its power to act which is, I think, one of the problems that people have today."

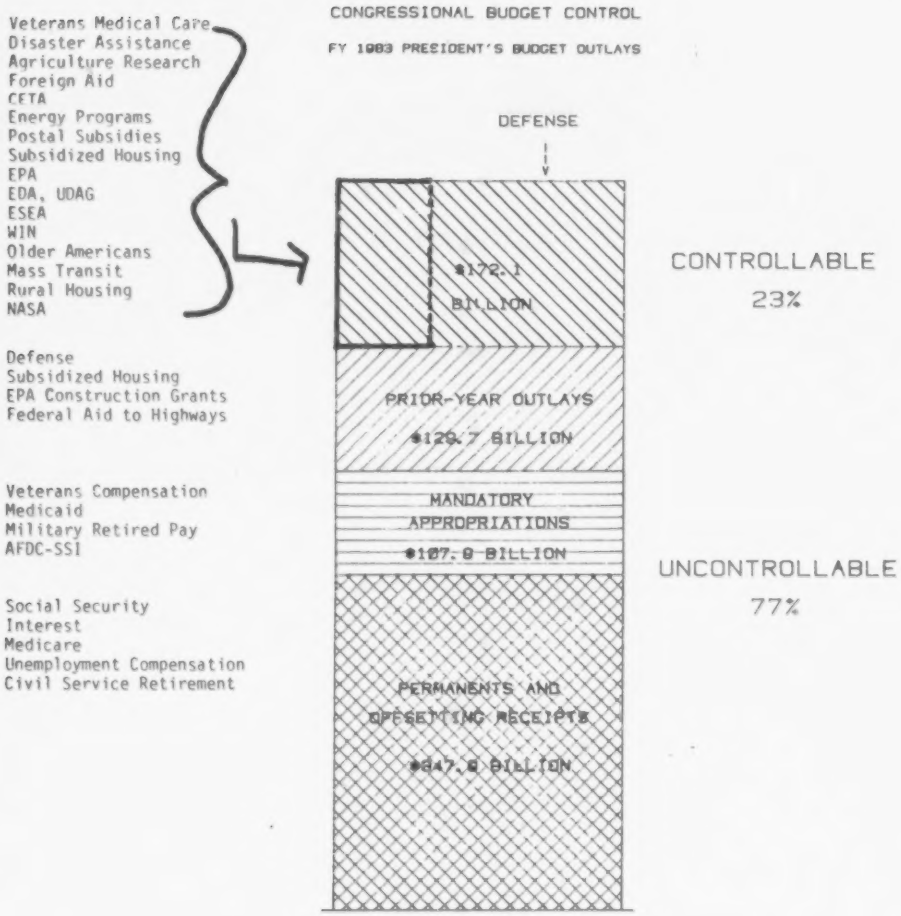
The fourth thing he said was that the Congressional budget must operate in tandem with, but not override, the appropriations process and the fifth point he made was that undue complexity could only mean a discrediting of any budget reform drive.

His words are still appropriate as we rethink budget reform ten years later.

One of the major problems which we face is the small portion of the budget which is controllable under present law in a budget year.

This bar graph shows you that 77 percent of the budget is uncontrollable. Prior-year outlays are about 17 percent of the budget. Mandatory appropriations account for $107.9 billion or about 14 percent of the budget.

Permanent and offsetting receipts are $347.9 billion or 45 percent. The rest is the 23 percent that is controllable and of that amount, defense is about 75 percent.


CONGRESSIONAL BUDGET CONTROL
FY 1983 PRESIDENT'S BUDGET OUTLAYS
Veterans Medical Care
Disaster Assistance
Agriculture Research
Foreign Aid
CETA
Energy Programs
Postal Subsidies
Subsidized Housing
EPA
EDA, UDAG
ESEA
WIN
Older Americans
Mass Transit
Rural Housing
NASA
DEFENSE
$172.1 BILLION
CONTROLLABLE
23%
Defense
Subsidized Housing
EPA Construction Grants
Federal Aid to Highways
PRIOR-YEAR OUTLAYS
$129.7 BILLION
Veterans Compensation
Medicaid
Military Retired Pay
AFDC-SSI
MANDATORY APPROPRIATIONS
$107.9 BILLION
UNCONTROLLABLE
77%
Social Security
Interest
Medicare
Unemployment Compensation
Civil Service Retirement
PERMANENTS AND OFFSETTING RECEIPTS
$447.8 BILLION

The real point of this graph is that only 6 percent of the whole budget is non-defense discretionary programs. This is the portion of the budget you focus on even years in the appropriation bills. This is the part which receives much of the attention in attempts to control the deficit or balance the budget. It is not true that only 6% of the budget can be controlled but it is the portion which receives yearly scrutiny. In contrast the other portions of the budget which are permanent law will happen unless Congress makes a decision to change them.

Why have we come to the place where such a small portion of the budget is controllable? The uncontrollable portion has grown in the last ten years from 66% to 77% of the budget. Why has this happened? The prior-year outlays have remained relatively the same, 16 to 17 percent of the budget. The appropriated entitlements have been about 14 to 16 percent of the budget. The big increase is in the permanents which have increased from 35 percent to 45 percent of the budget.

Why has that portion increased? The answer often given is that we have had big program liberalizations in the entitlement programs.

However, if you look at when most of the liberalization occurred, you notice that many of them happened in 1972 or back in 1969. There have been a few minor program liberalizations in the last few years, but primarily, the reason this category has gone up is because of linkage of the programs to the economy.

Thirty percent of the budget is indexed to inflation, and as inflation gets worse, the cost of that program goes up even though the benefits or the program level stays the same in real terms.

Another problem has been simply the demographics as more people became eligible for benefits set up in law; this is different than a liberalization of the law to give the same person a higher benefit.

Let me talk for a minute about the budget controls that are currently in use. You can classify them as controls which directly enforce the provisions of statute and those that are secondary to efficient operation. Some of the provisions of the Budget Act are educational, some of them enhance what we are doing, but they are secondary for the proper functioning of the Act. What you need to think about is which of the various kinds of Budget Act controls are the proper places for tougher enforcement.

Budget Act Enforcement Mechanisms

I. PROCEDURAL POINTS OF ORDER

A. Section 303

FIRST CONCURRENT RESOLUTION ON THE BUDGET MUST BE ADOPTED BEFORE LEGISLATION PROVIDING NEW BUDGET AUTHORITY, NEW SPENDING AUTHORITY, OR CHANGES IN REVENUES OR PUBLIC DEBT LIMIT IS CONSIDERED

Sec. 303. (a) In General.—It shall not be in order in either the House of Representatives or the Senate to consider any bill or resolution (or amendment thereto) which provides—

(1) new budget authority for a fiscal year;

(2) an increase or decrease in revenues to become effective during a fiscal year;

(3) an increase or decrease in the public debt limit to become effective during a fiscal year; or

(4) new spending authority described in section 401(c)(2)(C) to become effective during a fiscal year;

until the first concurrent resolution on the budget for such year has been agreed to pursuant to section 301.

(b) EXCEPTIONS.—Subsection (a) does not apply to any bill or resolution—

(1) providing new budget authority which first becomes available in a fiscal year following the fiscal year to which the concurrent resolution applies; or

(2) increasing or decreasing revenues which first become effective in a fiscal year following the fiscal year to which the concurrent resolution applies.

B. Section 305

PROVISIONS RELATING TO THE CONSIDERATION OF CONCURRENT RESOLUTIONS ON THE BUDGET

SEC. 305. (a) PROCEDURE IN HOUSE OF REPRESENTATIVES AFTER REPORT OF COMMITTEE; DEBATE.—

(1) When the Committee on the Budget of the House has reported any concurrent resolution on the budget, it is in order at any time after the tenth day (excluding Saturdays, Sundays, and legal holidays) following the day on which the report upon such resolution has been available to Members of the House (even though a previous motion to the same effect has been disagreed to) to move to proceed to the consideration of the concurrent resolution. The motion is highly privileged and is not debatable. An amendment to the motion is not in order, and it is not in order to move to reconsider the vote by which the motion is agreed to or disagreed to.

First of all, you have the Section 311 ceilings. These ceilings provide a point of order against any budget authority or outlays for the year which exceed the ceilings in the budget resolution or a reduction of revenues below the revenue floor. This is really the ultimate sanction that you have and the toughest sanction that you have.

This is the one the Rules Committee dislikes the most to waive. Since that is true, how many times has it been waived? This year, there have been eleven Section 311 waivers in six rules. Eleven so far this year.

This may sound like a lot of waivers, and it is, but what were they? Three were for such things as unemployment compensation, low-income energy assistance, and Commodity Credit Corporation. You look at these and you can see it would have been tough not to grant those waivers.

Those are tough issues. On the other hand here is a test of true enforcement of the Section 311 budget ceiling.

Later, there were Mr. Bolling's housing maintenance bill and the refugee assistance. Again, tough issues. The point really is you look

at the trade-off. This is the strongest method of control, but you look at the bills you would have stopped and you have to think about how many times you want to force the House to face one of these difficult procedural votes.

In addition to the Section 311 waivers allowing more spending, five out of the last six years, we had a third budget resolution. Members like to avoid third budget resolutions and the Act didn't really visualize an annual third budget resolution. It was intended as a contingency if needed. Third budget resolutions are politically unpopular. One of the first orders of business in a new session is often a third budget resolution, which is the reason that we have really adopted the procedure of incorporating the third resolution with the first resolution for the next year, so that Members don't have to vote separately on a third resolution.

The problem when you do that is that you have a budget emergency earlier in the year than you can have a third resolution, and this again necessitates a Section 311 waiver.

So why do you have a third resolution? I mean, what is it that causes this to happen? If you look at the difference between the second and third resolution, and you take a couple of years, you notice that in 1982, the difference between the second and the third was $83 billion.

Out of that amount, you had about $93 billion in upward reestimates of the budget mostly unrelated to policy actions. Hidden in the $83 billion was a minus $9.6 billion in policy reductions, which meant Congress actually cut spending. Still Congress had to vote on a third resolution raising the ceilings due to the impact of the economy on estimates and to technical estimating differences.

Of the $93 billion in upward reestimates, $54 billion was due to the economy. Of this about $8 billion was due to interest; the other $30 billion was due to technical reestimates.

Again, you recall what happened last year. Congress adopted the Gramm-Latta first budget resolution which contained unrealistic assumptions. They then reaffirmed the first with the second resolution, and then we were stuck with those unrealistic assumptions when the third came along.

Last year, in addition, was the first year the budget resolution used OMB's technical estimates. Institutionally, we always used CBO's. Last year, due to the politics of the Republican resolution, we used OMB's technical reestimates which it turned out were very unrealistic. This meant that the first resolution had a built in error from the beginning which meant a third resolution was inevitable.

Even when you try to include the best assumptions, you can encounter unexpected circumstances which can drive the estimates up. We try to anticipate needs for the entire year. Sometimes—and invariably it happens every spring—you will remember two years ago Mt. St. Helens hit us, and we needed more money in the budget resolution. It is obviously tough guessing ahead at the beginning of the year for emergency items. There has also been a big controversy about how to scorekeep or account for partial year funding.

If you have continuing resolution language for three months, should you count it for only those three months or should you try

to anticipate full year spending for the items in the continuing resolution, so you can give members a clearer picture of what the full year spending really will be?

The Parliamentarian has expressed concern because the law is on the books for three months. On the other hand, you want to tell members when they are voting on an overall resolution what the likely impact will be for the entire year.

That leads me to my suggestion, in order to get yourselves out of that problem of having to vote on something that has been really driven by reestimates, why not follow the President and put in a contingency at the beginning of the year to cover things in the spring.

Now, the argument has always been, if we do that, Appropriations will use up the money before an emergency comes along for something else. Well, they may, but you need to enforce the rules the first year they do use up the contingency, and make it difficult for them to do again. But, if you look at appropriation bills since the beginning of the Act, you find that essentially they have been within their totals. It is not appropriation bills that are driving up the budget numbers.

Now that we have given you the good news about the estimates and the fact that the large upward wing wasn't the fault of Congress, I have to give you the other side. The reason the technical and economic estimates where so large is that Congress voted on the Gramm-Latta first resolution with a set of economic and technical assumptions that were not real; thus the third resolution was the result of the assumptions implicit in congressional action on the budget resolution.

This came out in previous discussion—the importance of a realistic first budget resolution. If you look at the 1980 resolution which contained realistic assumptions, you'll see the difference between the first and third resolutions was only $8.4 billion instead of $93 billion. Out of that difference only $400 million was policy. That is a significant comparison.

This brings us to the second enforcement measure Section 303, which provides a point of order against a bill or resolution providing new budget authority or an increase or decrease in revenues or entitlements until the first resolution is in place. However, this often holds up appropriation bills. It has been suggested that you might want to install something else in place of the procedural control, some kind of an informal control which allowed the Appropriations Committee to go ahead if the resolution or the authorizations weren't in place by a time certain.

Another enforcement measure is Section 401 which is the backdoor spending provision which provides a point of order against new contract or borrowing authority unless it is made subject to appropriations. This section results in so many waivers because it applies to a bill as introduced in a committee, not as reported by the committee. This means a committee may correct the Budget Act violation in committee thus reporting a clean bill, but when the bill gets to the floor, it still requires a technical waiver.

If you chose to do so, you could take care of this by changing the House rules. Some people argue what you could lose in the process is the focus on writing a clean bill the first time around because

changing the House rules would make it easier to clean up a bill later.

This year, there have been nineteen waivers of section 401 and there were fifty-five in the last Congress. Most of these, however, were technical waivers but it is something the Rules Committee has to deal with.

Section 402 is another enforcement tool—a point of order against a bill or resolution that authorizes enactment of new budget authority unless it is reported before May 15.

There have been eighty rules with ninety-three such waivers in the 96th Congress and twenty-seven waivers this session. Again, most of these waivers were technical.

Another important enforcement tool is deferred enrollment, which is Section 301(b)(1). This is a procedure which allows bills to be held at the desk if they exceed their allocation. It is something that is mentioned in the language of the Budget Act, but the legislative intent of this provision was not the same as its evolution. The legislative intent was to hold appropriation bills at the desk until a decision is made about which ones to reconcile because it is easier to do that than sending them to the President, having them signed and then calling them back.

This has developed as a key sanction. The Budget Committee has used it for three years. None of the appropriation bills have been held at the desk, but deferred enrollment is viewed as a deterrent much like a police car sitting on a street corner.

Section 301(f) is another enforcement provision which requires a second budget resolution before adjournment and frankly, it is the only procedure in the Act that has an ultimate consequence—no adjournment. On the other hand, there is a way around that, the way there is a way around everything else, and that is you don't have to adjourn sine die.

Finally, Section 305 lays out the procedures for consideration of the budget resolution. It requires a 10-day layover period for the resolution. That has often been waived because the layover runs into Easter recess. It has been suggested to make that layover period five days or maybe not have a reporting deadline for budget resolutions, only a date for House passage.

The second kind of controls are what I call statutory provisions without procedural sanctions. Frankly, this constitutes the largest part of the Act's provisions. I think it probably should. As Mr. Bolling said, you don't want too many cumbersome procedural sanctions.

However, one thing to note is when you don't have direct procedural sanctions in many cases the enforcement is weaker.

Section 607 requires an authorization of new budget authority to be submitted by the President a year in advance. This is a requirement for the Executive while the Budget Act is in fact a self-disciplinary mechanism for Congress. In fact, the Executive Branch doesn't follow this statute and there is nothing Congress can do about it.

Section 302 and 308 are scorekeeping provisions. 302 is the provision that requires the committees to subdivide the allocation of new budget authority and outlays in the budget resolution. The Act

requires the committee to report back under 302(b), as soon as practicable which to some committees has meant never.

To other committees, it has meant infrequently. Last year, Ways and Means Committee which is one of the key committees, didn't file theirs at all.

Five months after the conference report, we still had three or four committees that hadn't filed their 302(b) allocation. This is what we use for scorekeeping spending legislation against congressional targets. As a result, this year we have added a couple of other enforcement techniques to encourage committees to file sooner.

Section 308(b) is the other primary scorekeeping provision, requiring CBO to file periodic reports tabulating congressional action. This is something that CBO does regularly. However, in terms of enforcement, if CBO decided not to produce this, there would be no sanction.

Section 300 of the Budget Act sets up the timetable and the only reason I really bring that up is to again make the point that for most of the key provisions of the timetable, there are no sanctions.

Then there are a number of other statutory requirements, many of which were intended to be educational, many of which were advisory or secondary to the functioning of the Act. These have been met in varying degrees. We have never, for instance, had the Appropriations Committee study of permanent budget authority required by Section 402(f).

The third category of controls which I would define is those which have grown out of statutes during the eight years of Congressional experience with implementation of the Budget Act. The Budget Committee doesn't control anything. Congress does. The Budget Committee reports out a resolution, and Congress passes it or they pass something different.

This isn't our timetable. It is a congressional timetable with a deadline for authorizing committees and one for the appropriations committees. The scorekeeping which the Budget Committee issues is the institutional backup for enforcement of the Act.

One of these controls which have evolved from the statute is the automatic second resolution. I think there is a feeling that many of members don't know that this provision was included in the language accompanying this year's budget resolution. There seems to be a feeling after we have been on the floor for three or four days, discussing all these programs and numbers, and then they get to the enforcement language at the end of the debate that everyone is tired of budget debate and no one cares any more.

This last year for the first time, there was a key vote on some enforcement provisions. That is the first time I remember members really focusing on the content of the enforcement provisions as opposed to dollar amendments relating to programs.

Credit is another area where controls have grown out of the Act. The credit controls were in response to the President's inititative in 1981 and to the explosion in credit financing during the last 10 years. Since credit wasn't part of the Budget Act controls, a large area of government financing remained untouched. This wasn't envisioned when the Act was set up.

In a way, the Budget Act of 1974 was like a child and it has now grown into a unruly adolescent. We are trying to figure out whether it will ever settle down into a reasonable adult or whether we need to exercise some stronger or different controls.

Another control which has evolved from the Act is the current-level letters, which are the scorekeeping backup providing the formal institutional tally of spending and revenues at any one time compared to the ceiling or revenue floor.

I might mention that the Budget Committee has developed the mechanics and rules for how to scorekeep because those specifications aren't in the Act; however, the legislative mandate comes from the Act.

The current level letter gives you a good look at one of the control questions. We file the current level letters periodically with the Speaker. There is nothing in the Act that says when or how we should file them. This process has evolved over time. The Chairman used to send the current level letter to the Speaker, but the Parliamentarian suggested a more formal procedure since it is used for rulings by the Chair on the Section 311 ceiling. So what we do now is have a committee meeting to verify current level numbers, which is a further step to legitimize the process.

There has been the suggestion that these ought to be regularized, that they are a little erratic, that we file them when we want to. One of the things that could be done is regular monthly filing. It would add consistency to the process, legitimacy to the process.

Backing up the current level is a scorekeeping system that is revised daily as bills go through. We could issue this daily. I don't think it makes sense to issue this daily, but the point is that this is a legitimate institutional form that upholds one of your procedural points of order, and you could exert more control through this kind of mechanism if you chose to do so.

CURRENT LEVEL LETTER

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE BUDGET,
Washington, DC, July 14, 1982.

Hon. THOMAS P. O'NEILL, Jr.,
Speaker, House of Representatives,
Washington, DC.

DEAR MR. SPEAKER: On January 30, 1976, the Committee on the Budget outlined the procedure which it had adopted in connection with its responsibilities under Section 311 of the Congressional Budget Act of 1974 to provide estimates of the current level of revenues and spending. We are herewith transmitting the status report under S. Con. Res. 92, which revised the Second Budget Resolution for Fiscal Year 1982. This report reflects the Revised Second Budget Resolution of June 23, 1982, and estimates of budget authority, outlays, and revenues based on all completed action on spending measures as of the close of legislative business July 13, 1982.

Sincerely,

JAMES R. JONES,
Chairman.

DELBERT L. LATTA,
Ranking Minority Member.

REPORT TO THE SPEAKER OF THE U.S. HOUSE OF REPRESENTATIVES FROM THE COMMITTEE ON THE BUDGET ON THE STATUS OF THE FISCAL YEAR 1982 CONGRESSIONAL BUDGET ADOPTED IN S. CON. RES. 92—REFLECTING COMPLETED ACTION AS OF JULY 13, 1982

[In millions of dollars]

	Budget authority	Outlays	Revenues
Appropriate level	777,672	734,100	628,400
Current level	768,674	730,667	628,600
Over resolution by			200
Under resolution by	8,998	3,433	

Budget Authority

Any measure providing budget or entitlement authority which is not included in the current level estimate and that exceeds $8,998 million for fiscal year 1982, if adopted and enacted, would cause the appropriate level of budget authority for that year as set forth in S. Con. Res. 92 to be exceeded.

Outlays

Any measure providing budget or entitlement authority which is not included in the current level estimate and that exceeds $3,433 million in outlays for fiscal year 1982, if adopted and enacted, would cause the appropriate level of outlays for that year as set forth in S. Con. Res. 92 to be exceeded.

Revenues

Any measure that would result in a revenue loss that exceeds $200 million for fiscal year 1982, if adopted and enacted, would cause revenues to be less than the appropriate level for that year as set forth in S. Con. Res. 92.

U.S. Congress,
Congressional Budget Office,
Washington, DC, July 14, 1982.

Hon. James R. Jones,
Chairman, Committee on the Budget,
U.S. House of Representatives, Washington, DC.

Dear Mr. Chairman: Pursuant to section 308(b) and in aid of section 311(b) of the Congressional Budget Act, this letter and supporting detail provide an up-to-date tabulation of the current levels of new budget authority, estimated outlays and estimated revenues in comparison with the appropriate levels for those items contained in the most recently agreed to concurrent resolution on the 1982 budget (S. Con. Res. 92). This report for fiscal year 1982 is tabulated as of close of business July 13, 1982 and is based on our estimates of budget authority, outlays, and revenues using the assumptions and estimates consistent with S. Con. Res. 92.

[In millions of dollars]

	Budget authority	Outlays	Revenues
1. Enacted	760,142	723,204	628,600
2. Entitlement authority and other mandatory items requiring further appropriation action	8,532	7,463	
3. Continuing resolution authority			
4. Conference agreements ratified by both Houses			
Current level	768,674	730,667	628,600
Second Budget Resolution, revised, S. Con. Res. 92	777,672	734,100	628,400

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	Budget authority	Outlays	Revenues
Current level is:			
Over resolution by			200
Under resolution by	8,998	3,443	

Sincerely,

RAYMOND C. SHEPPACH
(For Alice M. Rivlin, Director).

PARLIAMENTARIAN STATUS REPORT SUPPORTING DETAIL, FISCAL YEAR 1982 AS OF CLOSE OF BUSINESS JULY 13, 1982

[In millions of dollars]

	Budget authority	Outlays
I. Enacted:		
Permanent appropriations and trust funds	434,081	415,775
Enacted previous session (97th Congress, 1st Session)	433,290	419,316
Offsetting receipts	−112,358	−112,358
Enacted this session	5,129	470
Total, enacted	760,142	723,204
II. Entitlement authority and other mandatory items requiring further appropriation action:		
Payment to the Foreign Service retirement and disability trust fund	1	1
Offsetting receipt, Foreign Service retirement	−1	−1
Retired pay, Defense	98	97
Civilian and military pay raises, Defense	5,395	5,083
Grants to States for Medicaid	553	553
Services to selected groups (Social services)	52	52
Payment to the Foreign Service retirement and disability trust fund	5	5
Offsetting receipts, Foreign Service retirement	−5	−5
Student loan insurance	1,300	478
Payments to air carriers	20	20
Payment to civil service retirement and disability fund	303	303
Offsetting receipts, payment to Civil Service retirement	−303	−303
Government payment for annuitants, employees health benefits	304	304
Civilian agency pay raises	811	875
Total entitlements	8,532	7,463
III. Continuing resolution authority		
IV. Conference agreements ratified by both Houses		
Total current level as of July 13, 1982	768,674	730,667
Second Budget Resolution, revised, S. Con. Res. 92	777,672	734,100
Amount remaining:		
Over ceiling		
Under ceiling	8,998	3,433

Note.—Detail may not add due to rounding.

Also, we have another informal scorekeeping backup issued by the Budget Committee—the early warning report, which is intended to be educational, which we use just to try to explain to Members, like you do your constituents, how the bills that are coming up each week stack up against budget resolutions and targets; it focuses on the discretionary budget authority.

This provides the information which would back up the deferred enrollment provision of the Budget Act. Further, it is educational and intended to help Members make an informed vote. The early warning reports are printed in the Congressional Record every

Tuesday throughout the summer, once the appropriation bills start to move.

The final control I will discuss and in many ways the most important control to evolve from the Act is reconciliation. This is the only one of these control mechanisms that gets at the spending base.

Reconciliation itself was set out in the Act. However, the way reconciliation has been used under Section 301(b)(2) has certainly gone beyond the scope of the original provision.

Just to give you a little bit of history, the Budget Committee in 1978 before reconciliation was used, incorporated what they called legislative savings which were changes in mandatory law. Changing mandatory law is the only way you get at the spending base; changing authorizations doesn't effect spending; and changing appropriations has an effect for one year only.

But committees didn't act to change their mandatory laws to make these savings assumed in the budget reolutions. One year, the committees changed mandatory law and saved $13 million. The next year, they changed $100 million worth of mandatory law. So it became clear to us that without some kind of teeth, committee chairmen simply wouldn't go back and voluntarily change the programs they had helped put in law for the last 15-20 years.

Then, in 1981, there were extraordinary circumstances brought about by rapid deterioration of the economy. There was a general perception among Members that the budget resolution which would be considered early in the session should be used as a mechanism to signal change. No one could perceive an institutional mechanism in place at the time that would allow radical changes in law to be made to bring down the deficit within a fast time frame. So the leadership, including Mr. Bolling, the House and Senate Budget Committee, the Executive as well, met for ten days in the Capitol, ten straight days, sending out for bag lunches day and night, and came up with idea of using reconciliation in the first budget resolution to direct committees to achieve savings in their mandatory laws. This was for the fiscal year 1981 budget.

COMPARISON OF HOUSE AND SENATE RECONCILIATION DIRECTIVES

[In millions of dollars]

	1982		1983		1984	
	Budget authority	Outlays	Budget authority	Outlays	Budget authority	Outlays
House (June 26):						
Direct	−12,894	−18,117	−13,188	−19,883	−13,375	−21,749
Authorization	−42,249	−19,147	−47,217	−28,264	−54,858	−34,792
Total	−55,144	−37,265	−60,405	−48,147	−68,233	−56,541
Senate (June 25):						
Direct	−8,560	−13,389	−10,233	−15,379	−11,511	−17,741
Authorization	−44,941	−24,675	−52,908	−32,851	−61,229	−39,706
Total	−53,501	−38,064	−63,141	−48,230	−72,740	−57,447
Directive (May 20):						
Direct	−7,857	−13,863	−9,265	−16,623	−10,358	−18,785
Authorization	−42,837	−21,253	−48,334	−29,689	−55,658	−36,787
Total	−50,694	−35,116	−57,599	−46,312	−66,016	−55,572

The first reconciliation effort came up with about $6.4 billion in outlays and $4.2 in revenues. It was a fairly limited effort compared to last year. It didn't reconcile authorizations because the concept behind reconciliation is to get at the base, to make a permanent change in law that mandates spending every year so that in making one change in law it takes care of whatever happens thereafter. Changing authorization levels has no effect.

Last year's effort went much further in many ways. The scope was massive extending to seventeen committees instead of eight. The directive totalled $37 billion. It changed about 250 programs and the bill itself was about 1,000 pages long.

I am sure you will remember having this in the Rules Committee last year. Rules Committee never saw the entire document. You never had a complete CBO cost estimate on what the reconciliation bill would save. It came to the floor at 11:00 and you voted on it about 4:30, as I recall. The point is, reconciliation is a powerful mechanism and it can be used in different ways or misused in different ways. Last year, it truly did, I think, begin to reverse 30 years of past spending history, in one series of votes.

Also, it was used for fiscal policy purposes, which Mr. Bolling points out in his testimony before the Senate, was never intended. It was intended as a tool for discipline.

The question is often asked whether there is anything that can force committees to achieve their reconciliation savings. Of course, there isn't. Last year, there were a whole series of serious questions revolving around the will of all the committees to make reconciliation work, and the will of the membership to pass a bill.

There are a number of really significant questions to address in reconciliation. For instance, Education and Labor came out with $12 billion in savings over three years without the usual hearings and deliberation.

Last year, for instance, it threatened to become the comprehensive legislative bill for Congress including reauthorizations which aren't in fact real spending. Outyear numbers were included. Extraneous provisions were dumped in.

A final point addresses the overall question of control. Why control? Probably the most basic reason is that it derives from the Constitution. The power of the purse lies in Congress, but since 1921, when the Budget and Accounting Act was put in place, the power really flowed away from Congress. Congress has many committees involved in the budget process (authorizing, appropriating, and budget) while the Administration has one budget.

Philosophically, many people view control as a way of restraining spending. Or making programs more effective. On the other hand, those people who don't necessarily think you ought to restrain like it because it allows you to set priorities within an overall system. In other words, for the first time, you can talk about defense and human resources in one structure, and try to make some decisions.

Another reason for control is because it sets up a system for implementation of a plan.

The last point is consistency and reliability. To stabilize funding patterns for State and local governments and individuals with whom the Congress has made a specific contract, who rely on Federal funding.

The other side is the reasons not to control. One of the reasons is that it is time-consuming. The budget process is taking up more and more time in Congress. Also, the politics of control raises very difficult decisions. The more times you are forced into a tough procedural vote, the harder it is to support the process. It often comes at inconvenient times and it is often on issues which raise difficult questions such as indexing in Social Security.

The final thing is that any control is difficult. Any set of procedures you may institute to replace the current Budget Act will raise similar difficulties to the present system and it really relies on the willingness of the members to exercise the controls to make it work.

What I would like to discuss now is the technical backup materials that are required to put together a budget resolution and to keep track (or scorekeeping) of it. If I can focus your attention on this stack of materials, I think it will help make the point.

This a budget resolution. It is only 40 pages long; most of it is numbers. It took about 48 inches worth of backup material to put together this year's budget resolution. (This doesn't include the President's budget documents which, of course, are essential for the budget resolution.)

The President's materials used to be all we had before the enactment of the Congressional Budget Act, and this is what the Appropriations Committee used along with all the backup materials they received from agencies, special analysis on credit budgets, any special topics.

All the rest of the materials I have here are congressional documents. The first of these is a CBO analysis of the President's budget that is done in late January or early February. This is not statutory. This is something that CBO first started doing because the Appropriations Committee requested it as background for overview hearings in the House. This is significant because it gives us an independent congressional analysis of what is in the budget.

What CBO does is look at the President's proposals, using CBO assumptions and independent technical spend-out rate assumptions. CBO comes up with numbers that the House Budget Committee uses when we put together our budget resolution, numbers that are used for scorekeeping the Appropriations Committee bills, and numbers that the authorizing committees use for cost estimates on authorizing legislation. These congressional numbers are important because all the committees use them in an official capacity.

In many ways, prior to 1974, Congress reacted to the President's budget. The Appropriations Committee oftentimes would change them on the margins, but Congress did not really challenge the

President's budget numbers because they did not have the independent analytical capability to be able to do that.

Another document is the CBO five-year projections report. This is required by the statute, section 202(f), which requires projections of congressional budget actions. That requires this report on or before April 1st, but frankly it is just too late for the Budget Committee to use it in April. We have worked out an informal arrangement with CBO to get it in late January or early February.

The five-year projections report is significant for three basic reasons. It takes what our Chairman likes to call an automatic pilot concept of government, congressional policies that are in place at the time, appropriations and other spending bills and it projects them out for five years.

Now the reason that is significant is because until passage of the Budget Act, we never had a detailed official estimate from either the Executive Branch or from Congress what our current policies could cost us in the future. The Act also requires the President to submit a current services budget in November which is also a projection for five years of current policies. Again we worked out an informal arrangement so that the President's current services could come in January with the budget.

This means you have two different projections, the Administration's current services projection, in which he projects policies using his economic assumptions and his technical estimates, and a congressional policy in which CBO projects congressional policy using their economic assumptions and technical estimates.

Actually this is an instance where the practices resulting from the congressional experience with the Budget Act impacted on the Executive. Until 1979, the President's budget did not include out-year numbers in any detail. Congress and the Executive went hand in hand pushing for more out-year detail.

A second reason the five year projection report is important is the first time we used reconciliation we were looking for a neutral measuring stick to tell whether committees had achieved their reconciliation savings. We could not use the President's budget because it had the savings already assumed. So even though the CBO baseline in this projections report is not entirely neutral—it served as the best measure we had for calculating the reconciliation actions taken by Congress to change current policies, an objective yardstick for judging all the committees on an equal basis.

Along with the projections report, CBO sends two other documents under the statutory authority of section 202(f), which says, "CBO shall submit other reports as required from time to time."

One of these reports is the outlook for economic recovery. This is equivalent in many ways to the President's Economic Report which is submitted with the President's budget. Another CBO report lists options for reducing the deficit which CBO started to produce several years back, the year that Congress first started to focus on balancing the budget, and started to use reconciliation. CBO also does a number of special reports, which are used for the budget resolution again under 202(f), reports that generally are topical, such as indexing or analysis of the credit budget. They publish about 42 of these a year. And they do about an equivalent amount of unpublished reports for Members of Congress who have special interests.

The next series of congressional documents are the March 15th reports which are required by section 310(c) of the Budget Act. This section which requires committees to submit their views and estimates or their plans for the coming year.

The law allows a good deal of leeway in terms of what is submitted in these reports. And we found that over time committees have really approached this requirement in very different ways. Some committees take it very seriously, and they use it as a planning tool to get their committee organized early in the year. They have full committee and subcommittee meetings, officially report their March 15 report out, and in a few cases they have hearings. In other cases the committee chairman just sends a letter to us.

Over time these reports have become more detailed and more sophisticated for a series of reasons. The intent of the statute was to get input early on in the year from committees before the first budget resolution was put together to combat the old system where authorizations were reported sporadically throughout the year. And the idea was that it would force the committees to think ahead.

It also had both a practical and a political reason behind it. In order to put together a budget resolution, we need some input from committees on their priorities for the year. The Budget Committee incorporates the information from the committees in order to develop a consensus document. Many committees have argued over time that the March 15th reports are too technical or, that March 15 is too early for the committees to act. Over time a number of committee chairmen have come to our hearings and said that they were forced to prejudge their own subcommittee chairmen in sending these reports in so early. The tradeoff, of course, is that if committees do not do it early, it could push all the other budget actions which depend on it to later in the year.

Over time the materials that have been requested by the Budget Committees (until this year) have increased in detail, in complexity. The reason that we have requested more detail, is because the scope of the budget resolutions themselves expanded. For instance, as the need for out-year numbers in the budget resolutions grew, we asked committees in 1980 to submit to us their proposals for out-year policy. Most committees are not used to thinking in terms of the out-year implications of their legislation and it was difficult for most of them to do it.

In 1983, we also asked for credit information from the committees who had jurisdiction over credit programs. Again, we did it so that when we put together the first resolution we had their committee input to go on.

This year, we significantly changed our process because committees year after year had complained that we were focusing too much on technical detail and that we were missing the major policy, that they were required to submit too much detail about too many things that were basically insignificant to their committees and the process.

This is an example of the instructions and backup computer data that we used to send out to committees totalling 488 pages.

We found out that while committees resisted the complicated format on the one hand they did feel more comfortable having a format to work within.

But due to the number of suggestions from committees over time, this year, Mr. Jones worked with committees to figure out what would best respond to the criticisms of too much detail and complicated technical information. And he worked with them, had a number of meetings, and met basically with almost every committee chairman.

Finally what they settled on was a one page very basic general letter requesting views and estimates and leaving the format to the committees. It said, "You can respond in any way or manner you would like." So I think the process worked pretty well this year. What we gain institutionally is better rapport among the committees. I think we gained a better focus on the major policy issues.

But what you lose, I think, is a certain discipline in the process where each step builds on the last step. And if you are not forced to organize this early, I think you lose something down the line in terms of detail and timing of all the budget actions which are tied together.

The final documents which we use to put together a resolution are our four volumes of hearings. Just one of these is approximately 12,000 pages of hearings.

The second point I'd like to discuss is the information available to Congress. There are a large number of information bases available in any one year which can and do cause a lot of confusion among Members who don't know the difference. I have an example here of all the budget data bases in any one budget year. We used to call this compilation the horse blanket since it's at least that big. It helps to illustrate the problem with decision making when there are so many different numbers.

Not only are there a number of these data bases but any one of these data bases is very complicated in itself. I can illustrate this by showing you a computer run of one of these data bases which is several inches thick.

Data bases can differ from each other for a number of reasons. Probably the easiest thing to understand is policy differences. The President has different policies in many cases than Congress, thus producing different numbers.

However, oftentimes there are different numbers for the same program—all of which may be legitimate within their own framework. There are three or four reasons which can cause this to happen.

The first thing is economic assumptions. Because of the sensitivity of various program costs to the economy, a difference in economic assumptions can cause big differences in estimates for a program.

For instance, if you compare the Republican first budget resolution in 1982 which the House passed with the Democratic Committee-reported resolution which the House rejected, you will find quite different economic assumptions. If you take the Guaranteed Student Loans program for instance, which is interest sensitive, and you assume the Administration's estimate for interest, which was 8.9 percent, versus the Democratic budget estimate, which was

13.8 percent for interest—you will find that difference led to a $700 million disparity in estimates of cost for the same program.

The confusion over these different numbers culminated in 1982. Mr. Stockman was giving Members of Congress independent analyses of appropriation bills using different economic and technical assumptions than those provided for the Congress by CBO. These were being used in floor debate as Members armed with computer printouts on the floor argued over numbers instead of policies in appropriation and other spending bills. And the debates would oftentimes be over the same program at the same program level, and yet there were different numbers flying all over.

I think we have made a lot of strides forward in terms of agreement on economic assumptions in the last couple of years. The chairmen of the two Budget Committees, Mr. Jones and Mr. Dominici usually meet early on in the year to work out agreements on economic assumptions between House and Senate Budget Committees so that the budget resolutions contain the same ones.

It used to be the House and Senate would go to conference with different economic assumptions underlying the budget resolutions. The last two years there has been agreement before the budget resolution on economic assumption, so that the conference can concentrate on public differences. It is a separate problem and another reason why you can have different numbers. But we have agreed to use basically CBO's economic assumptions for figuring out all the programs that are sensitive to the economy.

The second difference is technical estimates. Like economic assumptions, there has been a significant difference between the President and Congress in the area of technical estimates in the last few years. What it basically involves is an analytical judgment on spendout rates in such areas as Defense monies on the actions of outside groups or court cases such as for Outer Continental Shelf, on timing of contracts in areas such as EPA and highway construction grants.

If you compare the estimates in the President's budget and in CBO's estimate of the President's budget from 1980 through 1984, in 1980 and 1981 there was a difference of about $7 billion tc $8 billion between the President's budget and the CBO reestimate under their economic and technical assumption. About half of the difference was economic and half of it technical.

But if you look at 1982, which was the first Reagan budget, you see that the difference between the President and the CBO estimate of the President was $26 billion. And in 1983, it was $23 billion. In 1982 about half of the $26 billion was due to economic assumptions; in 1983 only $3 billion of the $23 billion resulted from economic assumptions, and the rest was due to technical assumptions.

In both of those two years, the House Budget Committee had a budget resolution which contained what appeared at the time to be realistic economic and technical estimates. Congress must adjust, usually upward in a third budget resolution later in the year if economic and technical assumptions change. Therefore, it makes sense to put in the best assumptions to begin with.

Third budget resolutions are politically unpopular because they imply that Congress can't control spending. However, in 1983 the

difference in the deficit between the second budget resolution and third budget resolution was over $83 billion. This seems to imply that Congress overspent its own budget plan by $83 billion. However, Congress actually cut spending by $9 billion but inaccurate economic and technical estimates added $91 billion between the second and third budget resolutions. The cuts were masked by the overall assumptions.

Why does Congress incorporate unrealistic assumptions in a first budget resolution? For the same reasons the President's budget paints a rosy economic scenario. It is very difficult for Congress to vote on realistic assumptions in a first budget resolution because in recent years it has meant a much higher deficit. For two years in a row Congress in fact did refuse to do that. And then they were hit with the results later in the year with a much higher third budget resolution which was hard to explain. This year the Congress has accepted CBO's assumptions.

CBO prepares a consensus forecast that includes input from top economists and advisors nationwide. Dr. Rivlin is not shackled by the same kind of political constraints as any President. She prepares a professional non-partisan economic forecast whereas all Presidents' estimates tend to be too optimistic. It was not just Mr. Reagan; Presidents generally submit budgets which are optimistic. They are hoping unemployment will be down and interest rates will be down. CBO and Budget Committees generally tend to be more realistic.

A third reason which accounts for variations in numbers is scorekeeping or accounting. The same program may be treated differently. A good example was the Strategic Petroleum Reserve in 1982 when the Administration requested $3.7 billion for the total oil purchase and moved $3 billion of it off budget. The Jones budget also assumed $3.7 billion but moved only $1.5 billion of it off budget.

What happened is there were different numbers for the same program. And it was simply because of the scorekeeping differences—not program levels.

Another case is $3 billion for Medicare premiums a few years ago. The CBO baseline showed it as revenue, but the President submitted it as a proprietary receipt. The outlay numbers showed a $3 billion difference for the Medicare program, and it was simply because we were treating it in different ways.

The last reason for different numbers is that any budget is dynamic and will change during the year. It's difficult to keep track of a program as a budget moves through subcommittee, full committee, the House floor, and changes are made at each stop.

The question has been raised about whether it might make sense to mandate in law agreement on economic assumptions between the congressional and Executive branch. Frankly, I think while this is an excellent idea analytically the politics may make it impossible to do. The Executive and Congress often have different reasons for wanting to have their own assumptions, even though it causes a number of problems in sorting through the numbers. It is important to have a common set of economic assumptions, and it is possible. As a matter of fact, last year the Gang of 17 summit group, (the Administration, House and Senate Budget Committees)

met over a long period of time. And they hammered out not only common economic assumptions, but also agreed on what programs in the budget would be considered discretionary; an agreement which we had never reached before between the two branches of Government.

One of the proposals that Mr. Beilenson had before his task force was the requirement that economic assumptions be agreed on as part of the budget resolution. But one reason Members have cited against this proposal is that economic assumptions including unemployment rates and inflation are difficult issues. So the distinction is made about whether those assumptions are put in the budget resolution which is voted on or in the report accompanying the resolution.

The procedure used by CBO to derive the economic assumptions used in the budget resolution is at least 50 percent judgment and say 50 percent modeling. Therefore, the procedure whereby we make judgments essentially can be varied. In the end, a forecast that is made by the Congressional Budget Office usually tends to be a consensus-type forecast.

There is a very large community that engages in making economic forecasts. There are the commercial forecasters, such as DRI, Wharton, Economist Econometrics, Merrill Lynch, and Townsend and Greenspan. There are also business forecasts, businesses forecasting for private banks, insurance companies, and the like.

Despite the existence of all these different numbers, there is one operational data base that is used by Congress officially to cost out bills, track them and scorekeep where they stand at any one time compared to the budget resolution.

We have a complicated system which is set up to scorekeep on a continual daily basis how close we are to the ceiling. The basis for scorekeeping is the budget resolution aggregates, with the economic and technical assumptions implicit in the resolution. This is why it is so important to look at the assumptions when you vote on the policies in the resolution.

Congress has to vote on the budget resolution numbers, which legitimizes one set of numbers for official congressional scorekeeping. When Congress adopts a budget resolution, they adopt the assumptions in that resolution which are used for all formal institutional procedures until a new resolution is adopted by Congress.

This present system is criticized because the assumptions in a budget resolution get outdated. Appropriation bills start moving through Congress during the summer; economic conditions change. A number of Members have argued that we ought to use the latest set of economic assumptions to scorekeep a bill. However, this would add inconsistency and unpredictability to the process. If Congress is midway though a bill which has been costed out on the first resolution economic assumptions, and all of a sudden the Budget Committee says they are using another set of more recent economic assumptions, it is an unfair comparison.

Another criticism of the current system of scorekeeping based on the first resolution is that individual Members may not agree on the assumptions that are in the budget resolution and therefore argue they don't like having bills judged on this basis. But this is really a criticism of a scorekeeping system; it is a criticism of

the assumptions that are included in that resolution. There has been some support for developing an institutional procedure, however, that would allow Congress to update economic assumptions between budget resolutions. The problem has been how you do it, whose assumptions you use, and the procedure you use to do that.

I am a very strong supporter of some form of the present system because I think it leads to legitimacy and consistency. It may not change fast enough to accommodate the newest economic conditions; but a Member does know at any one point in time that there is one official number that is used by the authorizing committee, budget committee and appropriations committee for institutional purposes.

PRESENTATION BY SHIRLEY RUHE, ASSOCIATE DIRECTOR FOR BUDGET OPERATIONS AND PROCESS, AND RICHARD KOGAN, BUDGET ANALYST, HOUSE BUDGET COMMITTEE

SHIRLEY RUHE. This is a joint presentation in which I will discuss the overall nature of budget control and spending controllability and Richard Kogan will discuss the specific procedural sanctions that are used in the budget process.

If you look at the Act you see that there are few points of order, the strong form of the statutory control. On the other hand, there are a lot of requirements stating who shall do what, and by what date, though the requirements do not contain procedural sanctions. But underlying the whole process is what makes the Act fit together and work—there is a lot of informal political pressure. I think the Act would have been ignored a long time ago if it weren't for the real political need to produce a budget.

All Members I think want to go back to their districts, so even when things get tough and we think we can't resolve things, they get resolved. And peer pressure is very important. The first year we used the reconciliation process, there were a lot of committees saying informally that they didn't want to do this very much; if they found out that other committees did not intend to comply with the reconciliation directive, then they would not jump on the bandwagon. But no one wanted to be the one committee that was left out, that wasn't coming up with the reconciliation amount. So after the Ways and Means Committee submitted reconciliation savings, all the other committees did too.

By the way, this discussion relates to the broader issue of what is a congressional budget. Is it a budget resolution, or is it all the implementing legislation as well—the appropriation, tax, and reconciliation bills? What does the President mean when he criticizes Congress for not passing a budget? Does our failure to pass appropriation legislation in a timely manner mean we have in fact not produced a budget for the United States? I think not. You have ultimately done something. You have produced a continuing resolution, perhaps because it was easier to compromise on a continuing than going through all the pain of producing a series of appropriation bills and having them vetoed. Last year, for example, Congress produced the first budget resolution that was passed by both Houses. Congress produced individual appropriation bills and a continuing appropriation bill to pick up the rest. The President has

argued publicly that our failure to pass all the appropriation bills means that we do not in fact have a budget for the United States. This really could be argued both ways. The fact is that in passing a budget resolution, Congress has completed a large part of its responsibility for developing goals and targets for areas, but by not implementing it through the passage of separate appropriation bills, there is a legitimate criticism that Congress then is not really implementing what it adopted in the budget resolution. One real problem with continuing resolutions is, in my view, that the result in management inefficiencies because they are so late, and because the amounts appropriated are still not necessarily final.

Whether you think the Act has been successful depends in part on what you expect it to do. I think it also depends on when you came to Congress.

I worked for John Blatnick who was here for 28 years. He was Chairman of the Public Works Committee. I will never forget when he called me, after he had been out of Congress for about a year, he asked me why the current subcommittee Chairman had reported out his authorization bill so quickly. He thought it was internal politics. I explained the whole Budget Act and how authorization bills were required to be reported by May 15. He listened intently, and when I finished he asked, "but why did you do it?" And what that illustrated to me was how much had happened since he had left, how differently Congress was acting as an institution.

He had been here 28 years and he knew how Congress worked, and all of a sudden we were doing different things; we were responding within deadlines and he just couldn't understand it, it was too different.

I think the Budget Act made many positive changes. You have got authorizations reported a lot earlier than they used to be. You have a total spending picture, Congress has a greatly increased awareness of budget control and budget terms. In the beginning, Members got the authority and outlays confused. More Members in Congress now have more awareness and I think you are making a better budget, because you are forced to look at trade offs in an overall way.

I would like to digress for a moment to discuss the problems of authorizations not being enacted before the appropriations cycle starts. We asked CBO to do a study of how many authorizations were annual, a couple of years ago, because the Speaker was interested in what was fouling up the timetable and there was a hypothesis about annual authorizations. They went back ten or fifteen years, I can't remember, and what they found was that there was only a slight trend, in other words, the numbers weren't as high as we expected they would be. There were ten or eleven more annual authorizations than there had been ten or fifteen years before.

I think one of the problems is that the authorizing committees meet their reporting deadline of May 15 on that date, but not before. When they all turn in their bills that date, the House Rules Committee gets overwhelmed and the GPO gets overwhelmed. It takes a couple of weeks to sort that out.

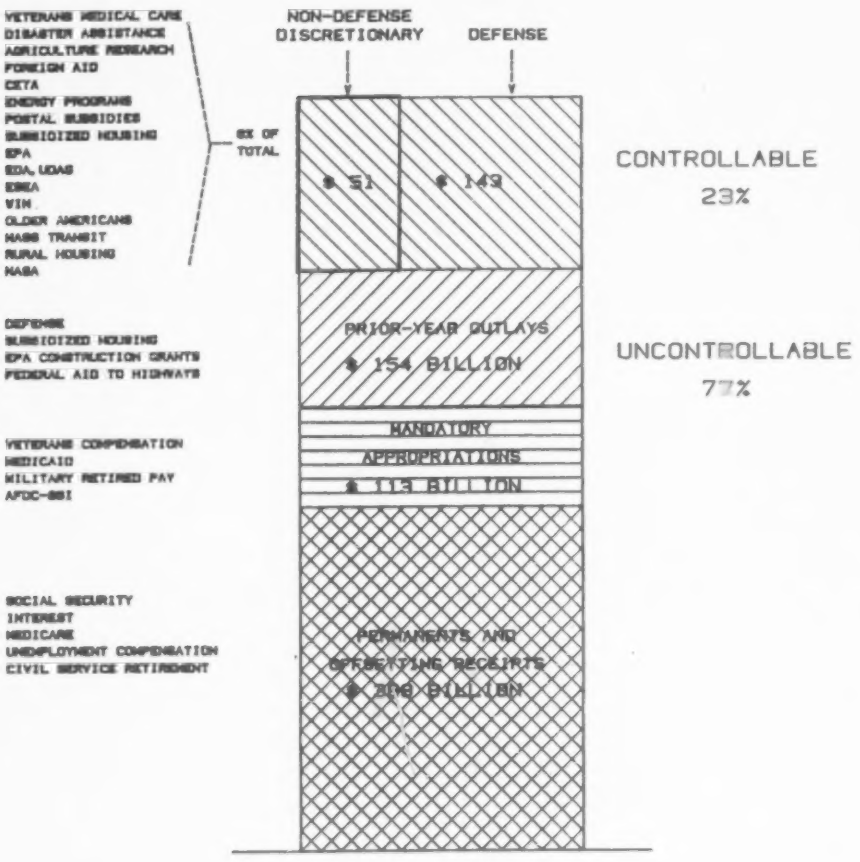
What you might want to think about is whether that requirement itself just isn't early enough. Committees do meet it, they do report their bills about May 15, but that is too late.

Now there was a proposal at one time to say, okay, these two have to have their legislation in by March 31, these three committees by April 15, in order to try to arbitrarily space out the timetable. The original House bill had a March 31st enactment date for authorizing bills. That was thought to be too stringent, and in the Senate version of the Budget Act a May 15th reporting date was devised.

Let me talk briefly about how easy or difficult it is to control the budget outlays in any one year. If you look at the bar graph, "Congressional Budget Control," you see that 77 percent of the budget is uncontrollable in any one year. The first category of uncontrollable spending is "prior-year outlays." In the fiscal year 1984 Budget these totaled $154 billion for 18 percent of the budget. These are outlays resulting from a discretionary appropriations bill enacted in some prior year. Now that the bill is law and contracts are signed, it is too late to stop the outlays. You can look to the left of the bar and see that the largest sources of prior-year outlays are defense, subsidized housing EPA construction grants, and highway aid. Defense actually is over 56 percent of these prior-year outlays. Most of that is procurement.

CONGRESSIONAL BUDGET CONTROL

FY 1984 PRESIDENT'S BUDGET OUTLAYS



Now if you look at the second category of uncontrollable spending, which totals $113 billion, (13 percent of the budget), examples are Medicaid, Veterans Compensation, AFDC. Oftentimes when people talk about controlling the budget they talk about welfare. Welfare is actually three percent of the budget. So you can eliminate it and there really won't be that big an impact.

The final and biggest category of uncontrollable spending in a budget year is the permanents and offsetting receipts, $388 billion, 46 percent; social security, interest, Medicare. Almost all permanents and mandatory programs are for net interest.

This brings you to the top category on the bar graph, which is "controllable". When we say controllable, we mean the money that is actually appropriated through discretionary decisions made in appropriation bills. The uncontrollable part of the budget has gone up from 70 percent of total spending ten years ago, to 77 percent now. So it has grown but it hasn't grown because of program liberalization, it has grown because so much of it is indexed to the economy and inflation has gotten worse. If you look at what happened in social security overall, between 1973 and 1983, social security has gone up by $114 billion of which $86 billion is COLAs. $86 of the $114 billion is COLAs and only $11.7 is due to beneficiary changes, liberalizations.

Over the last two years in particular, Congress has focused on entitlement changes, whereas in the past it was basically looking at discretionary spending. In reconciliation we include changes in Medicare and Medicaid, Social Security, and food stamps, (if you want to call that an entitlement program). Those are all entitlement-type programs, and in the last two years Congress has taken major steps to reduce benefits.

The way through which we gain some additional control over the so-called uncontrollable part of the budget is through the use of reconciliation; there seems to be no other way of doing it. Some people have discussed "sunset", but reconciliation is the only present method. In theory you can have separate bills. If the Ways and Means Committee wanted to move a bill to tighten up on Medicare on its own it could do so. But reconciliation has been a good vehicle in the sense that it gets committees to act that otherwise wouldn't. I should add that we all seem to be agreed that the reconciliation portion of our budget resolutions will be directed at uncontrollable entitlement programs rather than at authorizations of discretionary appropriations.

There is really one point I was trying to make with this particular chart. That is, we spend most of our time every year in the budget process, directed at this little box up here, this non-defense discretionary 6 percent. This is what we are talking about. And if you look at what is in this box you see many of our favorite discretionary programs, Veterans medical care, disaster assistance, older Americans, Postal Subsidies, UDAG. In many ways, our efforts are misdirected. If growing deficits are the problem, then we should devote as much or more time looking at taxes and entitlements as we do to discretionary appropriations. The reconciliation process is the key to deficit reduction.

Also, if you look at the rest of what is controllable, I have drawn a dotted line through the discretionary segment on purpose—you

see that the bulk is defense and, in fact, this year we have taken a reduction from what the President's defense requires, which is ultimately the only thing you can do in order to try to reduce these growing amounts of prior-year outlays in the outyears.

Aside from misdirected efforts, I am also trying to say that we should try not to be frustrated that we spend so much time on appropriation bills yet don't have a bigger impact, because the figures are against us in terms of the kind of impact you can make. The economy makes so much difference in dictating what the final numbers are. You can save, and we did, $36 billion through reconciliation, and have inflation or interest rates take off and end up spending all of that in programs that are indexed to the economy.

RICHARD KOGAN. I would like to make a fundamental point about the difference between the intent of the Budget Act and they way we have been reconciling as it pertains to controllability. The budget established reconciliation in Section 310 of the Act. It was supposed to occur after the discretionary spending.

By doing reconciliation in the first budget resolution before the enactment of discretionary spending, including new entitlement legislation, it is almost impossible to reconcile something that hasn't been appropriated. So what happened was, by doing it in the first resolution, we are in fact going after the budget base. This is necessary, I think, but was never really the intent of the original Budget Act.

The original Budget Act was intended to go after discretionary spending and ignore the base. The reason there is so much static about doing reconciliation in the first budget resolution is it does get at 77 percent of the budget called uncontrollable.

Ms. RUHE. One more point on this. If you look at the uncontrollable portion of the budget, it has grown from 70 percent to 77 percent over the last ten years. But if you look at the base amounts, in terms of the overall budget, the 70 percent was $190 billion 10 years ago. The 77 percent is now $655 billion. The reason it has grown so much, as I said, is not that we are giving people greatly expanded benefits. Most of the benefits were really added back in 1972; Medicare added universal coverage, and social security indexing took place in 1972, food stamp indexing in 1972, Civil Service Retirement COLAs in 1969. Most of the growth has been because so many programs in the government are indexed to inflation. In the last 15 years, the number of individual programs that are indexed has grown from 17 to 90 programs, indexed to the CPI or some other measure. Presently a third of federal expenditures is directly indexed to something.

A one percent increase in the CPI automatically triggers about $2 billion in increased spending. You can make all these painful cuts and then have the economy fall apart and have all of these automatic expenditures, because of the programs that are tied to the economy.

Another reason this uncontrollable part has grown is because of demographics, because we are all getting older, unfortunately. If you look at the area of veterans medical care, you note that the World War II veterans will be getting old and eligible for benefits; they will be over 65 soon. It is projected if you take the present program for veterans medical care, which costs about $7.5 billion,

by 1990, in 7 years, it will double because of demographics alone, without any increase in benefit levels.

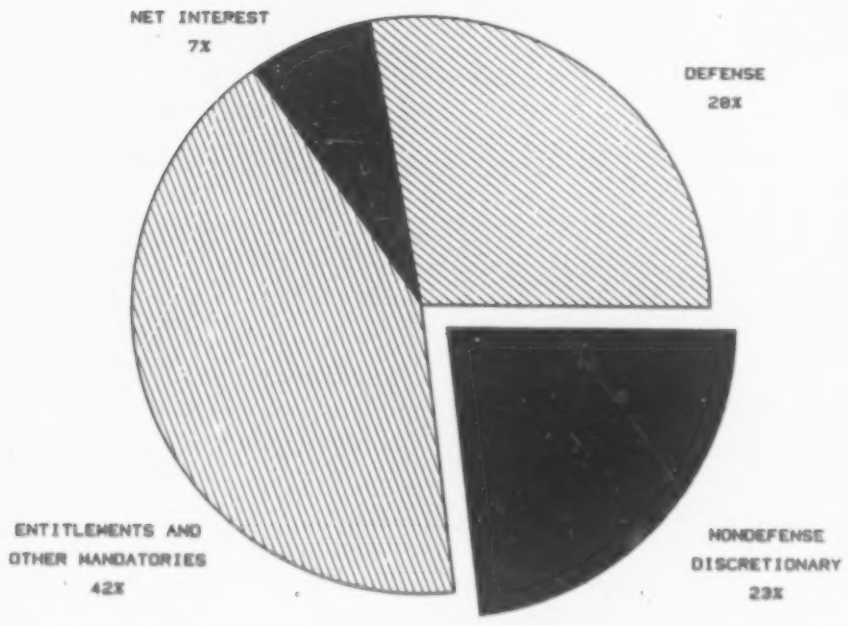
So unless you change the present program for veterans medical care now, a simple projection by 1990 will double it.

Finally, the budget process doesn't simply deal with the controllables and uncontrollables; there is a portion here that is not included, which is revenues. The reality is that in balancing what that overall budget is going to look like, you not only make decisions on controllables and uncontrollables, you also have to make decisions on revenues, and that is not reflected in this bar graph.

One final point. I have a couple of graphs here, pie charts that contrast future spending priorities with present priorities. In the foreseeable future we project reducing deficits, but they are continuing high deficits, $174 billion in 1984, $146 in 1985 and $136 in 1986. That is even if we achieve reconciliation and the other policies assumed in the budget resolution.

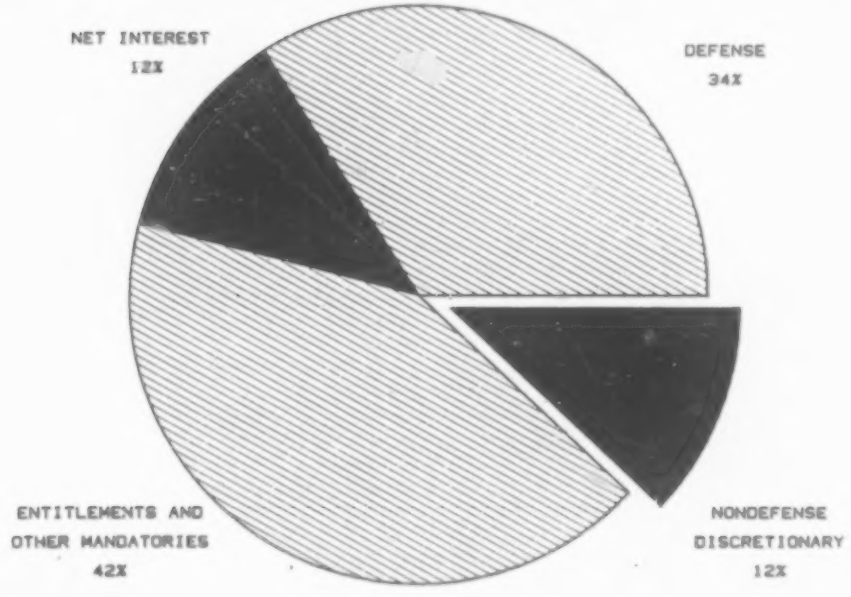
COMPARISON OF DISCRETIONARY OUTLAYS
IN THE PRESIDENT'S BUDGET

AVERAGE OF 1970'S



COMPARISON OF DISCRETIONARY OUTLAYS
IN THE PRESIDENT'S BUDGET

FISCAL YEAR 1988



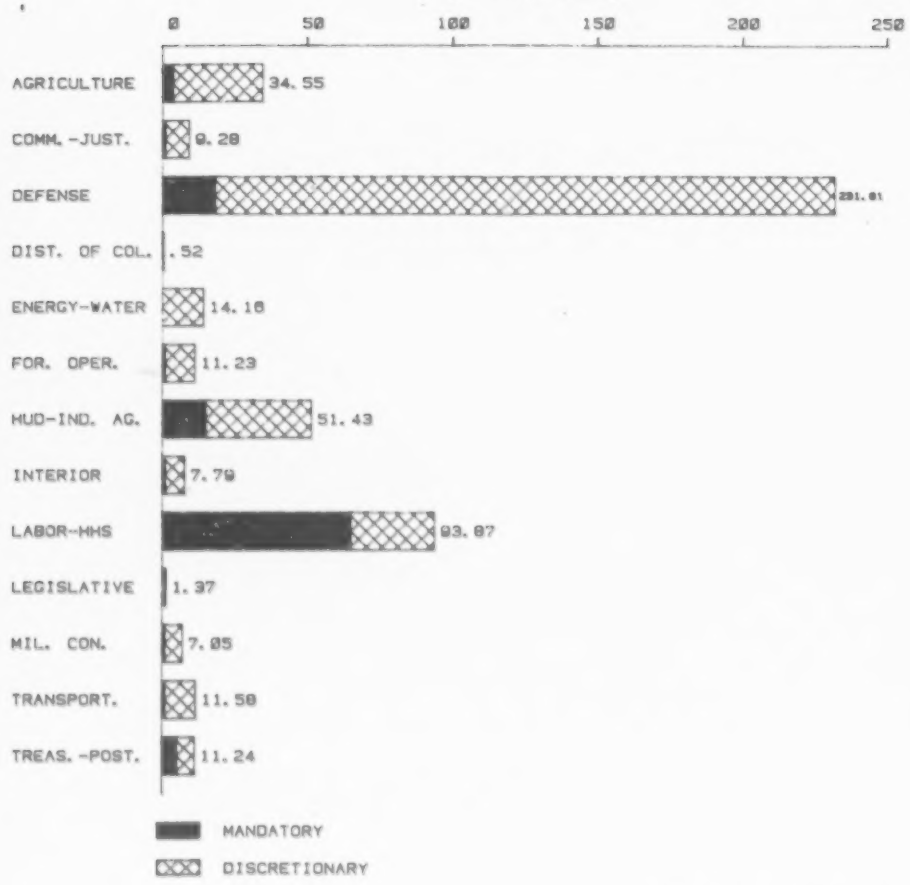
So, if you just take these two pie charts and look at them in conjunction with each other and focus on the dark solid detached piece of the pie, nondefense discretionary spending. What you can see is that it is shrinking away. If you take defense, interest and entitlements out of the pie, and you take a simple projection of the policies you have in place right now, by 1988 12 percent of the budget is left for the nondefense discretionary programs which is what we focus on in eleven appropriation bills in any single year.

The final graph that I have breaks out each appropriation bill for fiscal year 1983 by mandatory and discretionary amounts, so that it shows you in the bills that you are familiar with, that you act on each year, how much of that bill is really discretionary. It says a couple things. One thing it says is that defense is far and away the largest amount; there is a lot of discretionary money there that can be reduced, which will make a big difference in how much is left in the outyears. The second thing it says to me is that the other two bills that have the largest discretionary amounts available are HUD and Agriculture, not Labor and HHS. This often surprises people.

FY1983 APPROPRIATIONS BILLS

BREAKOUT OF MANDATORY AND DISCRETIONARY BUDGET AUTHORITY

(BILLIONS OF DOLLARS)



HOUSE BUDGET COMMITTEE

Mr. KOGAN. Mr. Chairman, I would like to review briefly the actual control mechanisms that exist in the Budget Act or in the budget resolutions, the formal ones and the informal ones. This presentation is divided into two sections discussion of control mechanisms on the levels of spending and revenues, and control mechanisms that have to do with the timetable.

At the end of this presentation, there is a six-page attachment that shows the actual provisions under discussion. There has been plenty of discussion of the timetables so I will go first to control mechanisms on levels of spending and revenues. I would like to address Section 311 of the Act, which is the section that creates a point of order against breaching the spending ceilings and a point of order on the revenue floor. This is on handout one. Bills that would exceed the aggregate spending ceiling in the Act, the total amount of budget authority and total amount of outlays, or bills that would cause revenues to go below the revenue floor, would be subject to a point of order.

Under the Budget Act, this ceiling comes into place only after a second budget resolution is agreed to. In the procedures that we have informally adopted the last couple of years, and sort of formalized within the last year and this year, this point of order would come into place automatically on October 1st even if there is no regular second budget resolution.

So, from October 1 on, but not before that time, a point of order can be raised against spending bills, or revenue bills, if they would have the effect of increasing the deficit beyond the spending and revenue marks in the budget resolution.

Now this procedure gives only against the grand total of the budget, the total $840 billion in outlays, so that the process is "first come, first served."

Theoretically, if Congress wanted to it could pass excessive bills over to the Senate and send them to the President until you got to the last bill, which would force you over the ceiling. And before October 1st you could enact all sorts of bills, even if they would breach an aggregate.

In section 5(c) of the House-passed first budget resolution for this year, there is a modification (for this year only) of the section 311 point of order, the first time there has been any modification. That modification provides that even if a point of order would apply because the aggregate ceilings are breached, nonetheless, it won't apply if the committee that authors the bill is below its allocation of discretionary new budget authority or discretionary new entitlement authority.

The impetus for this particular exception came about, particularly last year, when the spending ceilings were breached by the continuing resolution that came into place on October 1st. It turns out that the sole reason they were breached was because of overspending by committees other than the Appropriations Committee. Usually overspending consists of undersavings. The various committees were charged, both in reconciliation and in other assumptions in the budget resolution that were not reconciled, with making savings in the base, the uncontrollables.

Examples of the assumptions were adoption of a billion dollars worth of user fees, adoption of $3.6 billion worth of Medicare sav-

ings, when in fact only $2.7, something like that, were eventually adopted, and so on.

The net effect of the action during the summer on reconciliation and inaction on user fees (primarily) meant that the other committees of Congress used up some of the room that had been intended for the Appropriations Committee. When the last appropriation bill came along, which was the continuing resolution, that bill had the effect of breaching the aggregate ceiling, even though it didn't breach the Appropriation Committee allocation. I might add that it is hard to force committees to live within their target. A procedural sanction works when it halts a new bill that would spend new money—for example, the appropriation bills or an entitlement liberalization. But when a committee is supposed to cut the budget base or enact user fees, the committee always has the option to sit tight and report nothing to the floor. In such a case, the savings won't occur. Yet obviously the standard sanction, a point of order, doesn't do any good—there is no bill to object to. The same is true of an inadequate savings bill; there is no point in killing it by point of order, since that will only make spending higher. The solution to that is reconciliation.

One of the problems with last year's budget resolution was that the amount of back-door savings that were assumed was greater than the amount that was reconciled; the Latta budget substitute included a deliberate political decision that they could afford to assume $3.6 billion in Medicare savings but only reconcile $2.3 billion or they could afford to assume enactment of users fees but couldn't afford politically to reconcile them.

In any event, the Appropriations Committee found itself in a position where it was living within its allocation, its target for discretionary action, yet its bills would be subject to a point of order because the ceilings were breached. And this exception addresses that situation. This provision weakens the concept of overall control yet strengthens the concept of committee accountability.

In summary, however, we are now in the situation where a bill is only subject to point of order if both the total ceiling and the committee ceilings are breached. This will likely lead us to a situation in which some ceilings will be breached, but there will be no point of order.

I would finally like to point out that this exception applies only in the case that we are operating under an automatic second budget resolution and would not apply if we were operating under a regular second budget resolution reported in September.

Now, the section 311 point of order is deemed by many to be the major sanction in the Act. Because it raises a point of order against breaching spending ceilings, many Members think that the Act provides a binding control over spending. I think that it is arguable, because the sanction only applies when you reach right up near the end. Because you don't necessarily have point of order control on the steps along the way, I think personally, it comes too late to be effective.

In past years, the committees that for one reason or another had their bills delayed, and traditionally that has been the Appropriations Committee, were the ones most likely to be caught. I, however, would disagree with the traditional interpretation that section

311 is the most important enforcement provision in the Act. To my mind, the most important enforcement provisions in the Act are the provisions of Title IV, control on backdoor spending. These are on of the handout 2.

There are three which I will go over very briefly, and they deal with backdoor spending in the form of borrowing authority, contract authority, and entitlement authority. I call this backdoor because they are mechanisms by which committees other than the Appropriations Committee can either directly spend money or force the spending of money, without any effective control by the Appropriations Committee.

What the Congressional Budget Act did in Section 401(a) is simply ban new backdoor contract authority or new backdoor borrowing authority. The Act required that any bill that would provide such authority could only really authorize it; the money would not be effective except to the extent provided in advance in discretionary action by the Appropriations Committee.

There was considerable thought that the Budget Act should also ban entitlement liberalizations just as it banned increases in borrowing authority and contract authority programs, and some versions of the initial Budget Act did exactly that. There was a lot of pressure from the committees that deal primarily with entitlements, which are overwhelmingly the Ways and Means and the Finance Committees, to soften this procedure.

So instead different enforcement procedures were written to cover entitlement liberalization. First of all, in Section 401(b)(1), entitlement liberalizations are not allowed to be considered unless they are effective in the Congress October 1st. You can't make them effective immediately.

And secondly, and more importantly, if the bills that liberalize entitlements would cause the committee or subcommittee allocation or subdivision of new entitlement authority to be breached, then that entitlement bill is automatically referred to the Appropriations Committee for not to exceed 15 days, and the Appropriations Committee is granted jurisdiction to amend the entitlement bill to reduce the amount of spending in it.

So entitlement liberalizations have to run a hurdle if they exceed the amount assumed in the budget resolution. I think that three Title IV provisions, in concert, have been fairly effective, probably the most important part of the Act, because they have limited liberalizations of entitlements and borrowing authority and contract authority over the course of the history of the Act. This worked essentially independent of anything that happened to the budget resolutions.

As Shirley pointed out, the growth in entitlements since the Budget Act is due primarily to indexing and the fact that so many entitlement programs serve everybody over 65, and the elderly population is growing.

Those are the major controls in the Act as it was written. However, in the past few years, there has been an expansion of control, accomplished through the vehicle of the budget resolution. The budget resolutions have basically taken the allocation sytem, which is required by Section 302 of the Budget Act and was envisioned

primarily as a scorekeeping device, and have started tying some controls to the allocations of spending made to committees.

Let me go very briefly through the allocation system. Section 302(a) and (b) of the Act appear on handout 3. Every amount of spending assumed in the budget resolution is not only assigned to a function, and discussed in those terms, when it is debated on the floor, but also there is a corresponding committee assignment. After the conference report on the first budget resolution is agreed to, the money is allocated (or "crosswalked") to the committees of spending jurisdiction. Most of the money goes to the Appropriations Committee since it is provided in annual appropriation bills, and virtually all of the rest of the money goes to the Ways and Means Committee; the latter amounts are permanent appropriations, the bottom part of Shirley's bar graph.

The permanent money goes to the committee that wrote the permanent law and the appropriated amounts are allocated to the Appropriations Committee. The committees are further required by Section 302(b) of the Budget Act to subdivide their total allocation among either their subcommittees or their programs. The Apprpriations Committee is required to subdivide among its 13 subcommittees.

Now, the 302(b) subdivision is made by the committee of jurisdiction. While it presumably has to total the same amount that is allocated to the committee, still they can divide it among their subcommittees or programs in any way they want. This is a mechanism of flexibility that allows the committees, in essence, to do a little bit of reallocating from function to function. It allows committees flexibility not to follow the specific functional assumptions in the budget resolution.

Over time, however, we have discovered that the amount of reallocation done by the Appropriations Committee is very, very minimal. They may move one-half of one percent of their total allocation, for example, out of the Defense Subcommittee and into other committees; compared to what the Budget Committees has assumed. I think this shows that the politics that dictate the budget resolution distributions also drive the Appropriations Committee in making their internal distributions.

The internal distributions by subcommittee, or by program in the case of their committees, then become the basis for a fairly complex system of scorekeeping. The Budget Committee prepares a scorekeeping report, and "early warning" report on every spending bill that come to the House floor. I might add, on every revenue bill as well.

With regard to the spending bills, we compare the bills to the target for that program, or that subcommittee, that the committee, itself, has made in filing its 302(b) subdivision. This gives Congress an early warning of a situation in which committes could be over their subdivision, in which case they would be causing problems down the road with regard to the aggregate ceiling.

The initial intent of the congressional budget process basically was to let Congress, through the political process, enforce the allocations and subdivisions along the way during the summer, but not to have any procedural sanctions that would enforce them.

Let me digress for a moment about the nature of 302(a) allocation, the crosswalk. A chart showing the crosswalk of the outlays in the 1984 House-passed budget resolution is attached; it shows the function number across the top, and committees down the left-hand side; the amounts of money in each cell is determined by the Budget Resolution assumptions.

ALLOCATION OF 1984 OUTLAYS BY HOUSE COMMITTEE AND BUDGET FUNCTION—HOUSE-PASSED BUDGET RESOLUTION

[In millions of dollars]

	050	150	250	270	300	350	370	400	450	500	550	600	700	750	800	850	900	920	950	Total
Agriculture Subcommittee		1,528		30	1,173	2,192	25		560		705	18,843								25,056
Commerce, Justice		2,688			1,008		1,913	550	523	24				4,444		11				11,161
Defense Subcommittee	222,390																			222,390
DC Subcommittee																572				572
Energy and Water	6,186		595	3,630	4,068				459											14,939
Foreign operations		9,500																		9,500
HUD-Independent Agencies	364		7,770	106	4,316		541	516	5,445	6	46	10,520	25,088	30	3	5,374				60,124
Interior Subcommittee				1,773	4,571				730	869	739				210	102				8,994
Labor, HHS, and Education									−1	31,713	50,494	36,433	31	79						118,748
Legislative Branch							11			165					1,284					1,460
Mil. Con. Subcommittee	7,147																			7,147
Transportation Subcommittee					2			25,585				20		2				39		25,648
Treasury-Postal	146			0			879			1	1,576	52		994	9,072					12,719
Appropriation—unassigned	4	236	−12	−33	−45	−10	−40	40	17	51	−21	−7	50	−25	54	−13	−35	1,211	0	1,432
Appropriation Committee	236,238	14,032	8,353	5,506	15,094	2,182	3,328	26,691	7,773	32,828	53,539	65,861	25,177	5,524	10,633	6,036	−35	1,250	0	519,971
Agriculture Committee					240	12,556			553							185				13,535
Armed Services	−75							0					0							−75
Banking Committee	0	−167					−1076		104	−86	−1	0	−16		6		11			−1,223
DC Committee														11		158				169
Education and Labor										13		42								55
Energy and Commerce					0		32	39			8	10,780				6				10,866
Foreign Affairs		12,358					7					208								12,573
Government Operations															30	5,367				5,397
House Administration			0							8					129					137
Interior and Insular Affairs				134	82				477						1	1,040				1,757
Judiciary					0		36					4		−9	506					538
Merchant Marine					229		30	−33								7				233
Post Office							11				−133	21,638			11,951					33,467
Public Works				880	80			−2	0											967
Science and Technology			5	34											0					39
Veterans Affairs													1,078							1,078
Ways and Means											64,950	202,335			11	357	139,001			406,655
Unassigned to committee	−762	−13,024	−9	−2,254	−3,226	−88	−69	−545	−326	−63	−22,363	−16,169	−689	−26	−17,218	−5,556	−42,827		−17,350	−142,563
Total	235,400	13,200	8,350	4,300	12,500	14,650	2,300	26,150	8,550	32,700	96,000	284,700	25,550	5,500	6,050	7,600	96,150	1,250	−17,350	863,550

It is often said that the Budget Committee does not make line-item decisions. Well, it is impossible to do a crosswalk without line-item assumptions. The statement that the budget committee doesn't make line-item decisions has to do with the binding nature of the Budget Act. We do not make binding line item decisions. We do, however, make line-item assumptions for every single program in the budget, as we must, or else we couldn't come to a rational total. Admittedly, some of the line-item assumptions are just across-the-board increases or decreases from some baseline. In any event, under the original Budget Act the allocations to the committees were non-binding and the subdivisions made by the committee were non-binding, and furthermore committees had the possibility of making their subdivisions using different internal logic than we had done with ours.

So because of the flexibility and the non-binding nature of the allocations, our line item assumptions are not binding.

For the last few years there has been an enforcement mechanism against allocations and subdivisions. The enforcement mechanism hasn't been a point of order, but rather has been deferred enrollment. Under deferred enrollment no member raises a point of order. The bills proceed through the House and Senate, the conference report can be approved, but at the last step, the conference report is not sent to the President.

Let me back up a step and tell you how deferred enrollment was derived. On handout 4, there are the relevant provisions. Section 301(b)(1) of the Budget Act allows a deferred enrollment procedure. When it was envisioned, as far as I can tell, the idea was to hold all spending bills and all revenue bills at the enrolling desk until the second budget resolution, and then Congress could use the second budget resolution basically as a second chance to review everything it had done, and decide via a second budget resolution that everything was okay or that perhaps some of the bills that it had passed ought to be changed. They would be changed through a reconciliation directive contained in the second budget resolution, then a reconciliation bill would alter those pending bills.

That procedure, deferring bills till September, then reconciling them if necessary, was an optional procedure but the option was never used.

You can see, however, that the option of holding all bills, regardless of their level, and waiting for a second resolution to review the total, is a very different concept from the concept that has been in the budget process for the last few years. The concept that is now in place is that excessive bills are held but bills that are within the internal targets are allowed to proceed and be sent to the President for his signature. Futhermore, reconciliation is used at the beginning of the process, and goes after the budget base.

In other words, we have taken a provision of the Budget Act, that was meant primarily as a way of giving a second chance, and turned it into one that creates an incentive for committees to stay within their targets.

So, as it has been used the last three years, the sanction has been deferred enrollment against excessive conference reports, i.e. conference reports that would breach a 302(a) allocation. The measure of what is excessive is, first, discretionary budget authority, i.e.

budget authority that the committee could choose to appropriate or choose not to appropriate, and second, "discretionary" entitlement authority, i.e. entitlement liberalizations that they could choose to liberalize or not liberalize.

So what we measure is new spending action this year, and the target is the committee allocation or subdivision of such discretionary amounts. In the fiscal 1982 and 1983 Budget Resolutions, the sanction of deferred enrollment went right down to the 302(b) subdivision level. This year, however, the first budget resolution that was passed by the House, while using the same measure, doesn't go to the same level of detail. It goes only to the aggregate committee allocation of discretionary budget authority or discretionary new entitlement authority. It does not go to the subdivision level, i.e. the subcommittee or program level.

This gives committees more flexibility in meeting their total targets. It also raises the spector of it being first-come, first-serve and only the last of a committee's bills being subject to sanctions. Therefore, it could be viewed as a weakening of the deferred enrollment process compared to its operation in the last two years.

I would argue, however, that it is really not a significant weakening; historically, the politics of the Appropriations Committee is that they are well aware of their total, so the different subcommittees fight it out at the initial 302(b) subdivision allocation meeting, but then essentially do their best to live within their individual targets and succeed in doing so. Therefore, you wouldn't find a situation in which Appropriation Subcommittees are rushing through to appropriate the money that should be reserved for the last subcommittee.

With regard to other committees, they usually report only one, or perhaps two, direct spending bills per year, for example a highway bill out of the Public Works Committee, or maybe both a highway and Airport Development Aid Program bill.

In essence, the totality of the allocation for a spending committee other than Appropriations is basically the equivalent of a single subdivision for the Appropriations Committee.

Finally, on handout 5, there is a discussion of the enforcement procedures related to the timetable. The timetable is laid out in Section 3 of the Budget Act, but a large portion of it simply says that such and such a committee shall do such and such by such and such a date. There is, no enforcement, by point of order or otherwise, if the date isn't met.

Shirley explained why there is, nonetheless, a strong argument for leaving those deadlines in the Act. There are, however, provisions of the timetable that do have point-of-order enforcement, and the three important ones are the required date of May 15 for reporting authorizing legislation. There has been considerable discussion that that date may not be soon enough. In any event, it is enforced by a point of order.

The second May 15 date says that you cannot consider spending, revenue, or debt legislation for a fiscal year until the budget resolution has been finally agreed to. The result is that May 15 is an end date for reporting authorizations and a starting date for implementation action.

And finally, there is a provision that says Congress cannot consider an adjournment resolution until we finish the second budget resolution required by law.

All of these provisions can be waived or ignored, and there have been quite a lot of waivers in Section 402(a) and 303(a), the two May 15 deadlines, but most of those waivers have been essentially technical; that is, a bill violates one of them because it has an implicit authorization that the sponsors didn't realize, or because it has backdoor spending that they didn't realize was there, and the committee agrees to offer a committee amendment that cures the violation.

Nonetheless, the Budget Act still requires a waiver, because it is the initial bill which is considered by the House before the committee amendment is considered. H. Res. 65, as you remember, Mr. Chairman, did away with those needs for technical waivers by applying the sanctions to committee amendment, if there was one, and not to the original bill.

HANDOUT 1

SPENDING CEILING/REVENUE FLOOR

(Sec. 311(a) Budget Act)

NEW BUDGET AUTHORITY, NEW SPENDING AUTHORITY AND REVENUE LEGISLATION MUST BE WITHIN APPROPRIATE LEVELS

SEC. 311. (a) LEGISLATION SUBJECT TO POINT OF ORDER.—After the Congress has completed action on the concurrent resolution on the budget required to be reported under section 301(a) for a fiscal year, and, if a reconciliation bill or resolution, or both, for such fiscal year are required to be reported under section 310(c), after the bill has been enacted into law or that resolution has been agreed to, it shall not be in order in either the House of Representatives or the Senate to consider any bill, resolution, or amendment providing additional new budget authority for such fiscal year, providing new spending authority described in section 401(c)(2)(C) to become effective during such fiscal year, or reducing revenues for such fiscal year, or any conference report on any such bill or resolution, if—

(1) the enactment of such bill or resolution as reported;

(2) the adoption and enactment of such amendment; or

(3) the enactment of such bill or resolution in the form recommended in such conference report;

would cause the appropriate level of total new budget authority or total budget outlays set forth in the most recently agreed to concurrent resolution on the budget for such fiscal year to be exceeded, or would cause revenues to be less than the appropriate level of revenues set forth in such concurrent resolution.

(Sec. 5(c) 1984 Budget Resolution)

(c) Section 311(a) of the Congressional Budget Act, as made applicable by subsection (a) of this section, shall not apply to bills, resolutions, or amendments within the jurisdiction of a committee, or any conference report on any such bill or resolution, if—

(1) the enactment of such bill or resolution as reported;

(2) the adoption and enactment of such amendment; or

(3) the enactment of such bill or resolution in the form recommended in such conference report;

would not cause the appropriate allocation for such committee of new discretionary budget authority or new spending authority as described in section 401(c)(2)(C) of the Congressional Budget Act made pursuant to section 302(a) of such act for fiscal year 1984 to be exceeded.

(d) The provisions of this section shall cease to apply when Congress completes action on a subsequent concurrent resolution on the budget for fiscal year 1984 pursuant to section 304 or 310 of the Congressional Budget Act.

HANDOUT 2

CONTRACT OR BORROWING AUTHORITY

(Sec. 401(a) Budget Act)

TITLE IV—ADDITIONAL PROVISIONS TO IMPROVE FISCAL PROCEDURES

BILLS PROVIDING NEW SPENDING AUTHORITY

SEC. 401. (a) LEGISLATION PROVIDING CONTRACT OR BORROWING AUTHORITY.—It shall not be in order in either the House of Representatives or the Senate to consider any bill or resolution which provides new spending authority described in subsection (c)(2)(A) or (B) (or any amendment which provides such new spending authority), unless that bill, resolution, or amendment also providing that such new spending authority is to be effective for any fiscal year only to such extent or in such amounts as are provided in appropriation Acts.

ENTITLEMENT LIBERALIZATIONS

(Sec. 401(b)(1) Budget Act)

(b) LEGISLATION PROVIDING ENTITLEMENT AUTHORITY.—

(1) It shall not be in order in either the House of Representatives or the Senate to consider any bill or resolution which provides new spending authority described in subsection (c)(2)(C) (or any amendment which provides such new spending authority), which is to become effective before the first day of the fiscal year which begins during the calendar year in which such bill or resolution is reported.

(Sec. 401(b)(2) Budget Act)

(2) If any committee of the House of Representatives or the Senate reports any bill or resolution which provides new spending authority described in subsection (c)(2)(C) which is to become effective during a fiscal year and the amount of new budget authority which will be required for such fiscal year if such bill or resolution is enacted as so reported exceeds the appropriate allocation of new budget authority reported under section 302(b) in connection with the most recently agreed to concurrent resolution on the budget for such fiscal year, such bill or resolution shall then be referred to the Committee on Appropriations of that House with instructions to report it, with the committee's recommendations, within 15 calendar days (not counting any day on which that House is not in session) beginning with the day following the day on which it is so

referred. If the Committee on Appropriations of either House fails to report a bill or resolution referred to it under this paragraph within such 15-day period, the committee shall automatically be discharged from further consideration of such bill or resolution and such bill or resolution shall be placed on the appropriate calendar.

(3) The Committee on Appropriations of each House shall have jurisdiction to report any bill or resolution referred to it under paragraph (2) with an amendment which limits the total amount of new spending authority provided in such bill or resolution.

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HANDOUT 3

ALLOCATIONS/SUBDIVISIONS

(Sec. 302 (a) Budget Act)

SEC. 302. (a) ALLOCATIONS OF TOTALS.—The joint explanatory statement accompanying a conference report on a concurrent resolution on the budget shall include an estimated allocation, based upon such concurrent resolution as recommended in such conference report, of the appropriate levels of total budget outlays and total new budget authority among each committee of the House of Representatives and the Senate which has jurisdiction over bills and resolutions providing such new budget authority.

(Sec. 302(b) Budget Act)

(b) REPORTS BY COMMITTEES.—As soon as practicable after a concurrent resolution on the budget is agreed to—

(1) the Committee on Appropriations of each House shall, after consulting with the Committee on Appropriations of the other House, (A) subdivide among its subcommittees the allocation of budget outlays and new budget authority allocated to it in the joint explanatory statement accompanying the conference report on such concurrent resolution, and (B) further subdivide the amount with respect to each such subcommittee between controllable amounts and all other amounts; and

(2) every other committee of the House and Senate to which an allocation was made in such joint explanatory statement shall, after consulting with the committee or committees of the other House to which all or part of its allocation was made, (A) subdivide such allocation among its subcommittees or among programs over which it has jurisdiction, and (B) further subdivide the amount with respect to each subcommittee or program between controllable amounts and all other amounts.

Each such committee shall promptly report to its House the subdivisions made by it pursuant to this subsection.

HANDOUT 4

DEFERRED ENROLLMENT

(Sec. 301(b)(1) Budget Act

(b) ADDITIONAL MATTERS IN CONCURRENT RESOLUTION.—The first concurrent resolution on the budget may also require—

(1) a procedure under which all or certain bills and resolutions providing new budget authority or providing new spending authority described in section 401(c)(2)(C) for such fiscal year shall not be enrolled until the concurrent resolution required to be reported under section 310(a) has been agreed to, and, if a reconciliation bill or reconciliation resolution, or both, are required to be reported under section 310(c), until Congress has completed action on that bill or resolution, or both;

(Sec. 4. 1984 Budget Resolution)

SEC. 4. No bill or resolution providing new discretionary budget authority for fiscal year 1984, or new spending authority described in section 401(c)(2)(C) of the Congressional Budget Act for fiscal year 1984, which exceeds the appropriate allocation of such new discretionary budget authority or new spending authority made pursuant to section 302(a) of such Act shall be enrolled until after the Congress has completed action on the second concurrent resolution on the budget required to be reported under section 310 of such Act or until October 1, 1983, whichever occurs first.

HANDOUT 5

TITLE III—CONGRESSIONAL BUDGET PROCESS

TIMETABLE

SEC. 300. The timetable with respect to the congressional budget process for any fiscal year is as follows:

On or before:	*Action to be completed:*
November 10	President submits current services budget.
15th day after Congress meets.	President submits his budget.
March 15	Committees and joint committees submit reports to Budget Committees.
April 1	Congressional Budget Office submits report to Budget Committees.
April 15	Budget Committees report first concurrent resolution on the budget to their Houses.
May 15	Committees report bills and resolutions authorizing new budget authority.
May 15	Congress completes action on first concurrent resolution on the budget.
7th day after Labor Day	Congress completes action on bills and resolutions providing new budget authority and new spending authority.
September 15	Congress completes action on second required concurrent resolution on the budget.
September 25	Congress completes action on reconciliation bill or resolution, or both, implementing second required concurrent resolution.
October 1	Fiscal year begins.

(Sec. 402(a) Budget Act

REPORTING OF AUTHORIZING LEGISLATION

SEC. 402. (a) REQUIRED REPORTING DATE.—Except as otherwise provided in this section, it shall not be in order in either the House of Representatives or the Senate to consider any bill or resolution

which, directly or indirectly, authorizes the enactment of new budget authority for a fiscal year, unless that bill or resolution is reported in the House or the Senate, as the case may be, on or before May 15 preceding the beginning of such fiscal year.

(Sec. 303(a) Budget Act)

SEC. 303. (a) IN GENERAL.—It shall not be in order in either the House of Representatives or the Senate to consider any bill or resolution (or amendment thereto) which provides—

(1) new budget authority for a fiscal year;

(2) an increase or decrease in revenues to become effective during a fiscal year;

(3) an increase or decrease in the public debt limit to become effective during a fiscal year; or

(4) new spending authority described in section 401(c)(2)(C) to become effective during a fiscal year;

until the first concurrent resolution on the budget for such year has been agreed to pursuant to section 301.

(Sec. 310(f) Budget Act)

(f) CONGRESS MAY NOT ADJOURN UNTIL ACTION IS COMPLETED.—It shall not be in order in either the House of Representatives or the Senate to consider any resolution providing for the adjournment sine die of either House unless action has been completed on the concurrent resolution on the budget required to be reported under subsection (a) for the fiscal year beginning on October 1 of such year, and, if a reconciliation bill or resolution, or both, is required to be reported under subsection (c) for such fiscal year, unless the Congress has completed action on that bill or resolution, or both.

PRESENTATION BY ALLEN SCHICK, PROFESSOR, SCHOOL OF PUBLIC AFFAIRS, UNIVERSITY OF MARYLAND

What I am going to do—I think we will be very informal—is to examine what Congress accomplishes with the budget process. It is my understanding that in subsequent sessions, the task force will consider the necessary procedures by which Congress accomplishes its objectives through the budget process.

A number of fundamental issues must be resolved before Congress can set up a budget process. Perhaps the most fundamental is, why have a budget process. We have to recognize that there was a budget process on Capitol Hill before there was a congressional budget process, and there will be one even if Congress were to get rid of the Congressional Budget Act of 1974. After all, Congress does have procedures—appropriations, revenue legislation, and authorizations—to make financial decisions. There is evidence that for substantial periods in American history, even in the absence of formal, explicit coordination, there was coordination among these separate processes. Despite the fact that revenues and appropriations were made separately—that there were more than a dozen appropriation bills—and despite the fact that the rules, particularly in the House, separated authorizations from appropriation, financial decisions were coordinated. Congress did not run amock in

spending. There was a sense of balance between revenues and expenditures. Deficits were common, but usually moderate.

So one must ask: Why did Congress need a budget process at a particular juncture in its history, and what was the effect of its new process on the older processes by which it had previously made budget decisions?

By the 1970s, informal coordination no longer was good enough. It was not working. In part, it was not working because pressures to spend were increasing. As the Federal Government got larger, pressures on Congress expanded. Moreover, the restraints within Congress which allowed informal coordination to work began to break down. Boundaries between authorizations and appropriations processes were eroded as backdoor spending increased. The revenue committees began to get more involved in expenditures decisions principally through entitlements. Formal budgetary coordination was seen as a way of responding to the breakdown of informal coordination. But even after close to 10 years of congressional budget process experience, we really cannot be sure that, if informal mechanisms, which are always so critical on the Hill, do not work, formal mechanisms can compensate for them? All the rules, points of order, the guardians of the budget process, the members and staffs of the Budget Committee cannot compensate for the fact that Members and committees are not meshing together well or are not willing to maintain budgetary discipline, and are not inhibited in making demands upon the budget process.

Prior to 1974, maybe not right up to 1974, but at least until the mid-sixties, without any formal coordination, members of the Appropriations Committees had a good idea of what total appropriations would be for the full fiscal year, despite the fact that then (as now) each subcommittee developed its own appropriation bill. They had a sense of how much more or less appropriations would be than the President's budget and where the increases and decreases were likely to be. They were able to judge individual appropriation bills in terms of these expectations, and, hence, total spending was likely to be in line with expectations. They also had a sense of how total expenditures would compare to total revenues, and thus they had a notion of what an "acceptable" deficit would be.

Why did the "unseen hand" of the budget process work in the old days? I would suggest a number of factors which once prevailed but have vanished or been weakened over the years. First, the House Appropriations Committee saw itself (and functioned) as guardian of the Treasury. In this role, the Committee usually recommended appropriations below the President's request. Hence, by reviewing the President's budget, Congress was able to form a "ballpark" notion of how much total spending would ensue. Second, authorizing committees had (with few exceptions) limited roles in budget-making. Most had jurisdiction over permanent authorizations which continued in effect from year to year without congressional action and which usually were for "such sums as may be necessary." The budgetary inaction of authorizing committees meant that demands for money were more stable and predictable. It should be mentioned in this connection that prior to the 1970s, entitlements were a small portion of the federal budget and

that, consequently, expenditures were less sensitive than they now are to changing economic conditions.

Stability also prevailed on the revenue side of the budget. Major changes in the tax laws were made infrequently, and though actual collections were sensitive to the performance of the economy, there were fewer (or shallower) economic zigzags in the two decades after World War II than in the subsequent decades. Stability was facilitated by the lack of subcommittees on the Ways and Means Committee and by closed rules which barred floor amendments to revenue bills.

Informal coordination through stable roles and expectations was further enhanced by the relatively small number of people within Congress who dealt with money matters. Committee and Member staffs were small (compared to their current sizes) and, more importantly, few staff people were expert in budgetary matters. This situation encouraged Congress to rely heavily on the President for budgetary leadership and on his budget office for information and advice.

The Appropriations Committee in those days was completely oriented to the President's budget. It took the President's budget as a yardstick and as its starting point. For it, the main question was what to do—plus or minus—compared to the President's budget. The Committee was so much less Congress-oriented than it is today.

I am not saying that the informal coordination was good enough or sufficient, but I would suggest that it did exist and it encouraged Members and Committees to behave in a responsible way. Once you establish a budget process, you change the behavior of the older participants; in my view, the most pronounced change is in the House Appropriations Committees.

That change began before the Congressional Budget Act of 1974. From once being guardians of the Treasury, the Appropriations Committee began to see itself as being forced to spend money, and to advance programs favored by its Members or by the rank and file in Congress. This advocacy behavior is evident in the March 15 reports that it files. This behavior was evident for example in late 1981 when the Appropriations Committee took the lead in opposing the second round of spending cuts that the President had demanded. In other words, when Congress imposed a new set of controls through the budget process, it weakened the old controls. If the Budget Committees are controlling and the authorizing committees are advocating, the Appropriations Committees need a new role or else they fade away. They have become advocates.

Reconciliation as it was applied in 1981 further emphasized this trend in the Appropriations Committees. To the extent that in 1981 the authorizing committees were forced to behave as budget-cutters; the Appropriations Committees were impelled to behave as program advocates. What I am suggesting is that when the budget process was introduced into a legislative environment with all the traditions and networks, it had ripple effects; sometimes you cannot anticipate the ripples in advance. What that means to me is that if the congressional budget process were to become inoperative, it would be a great loss unless Congress were able to return to the kinds of informal coordination which once existed. Congress

could have the worst of both worlds: That is, it would not have the discipline of a budget process nor the benefit of informal coordination. The legislative process would be open to financial and program demands without countervailing checks and balances to ensure that the final outcome is in line with congressional expectations.

It is possible that if the budget process were to wither away, informal coordination such as once existed would return. But this old form of budgetary discipline flourished in a disciplined legislative environment which is not now the case.

In order for informal control to come back, a number of things would have to happen on the Hill. For example, we would have to change the way Members are selected for the Appropriations Committee. We would have to change the markup procedure of appropriations and go back to closed committees. We would have to change the way members are appointed to the Appropriations subcommittees. Now they self-select. At one time the chairman determined subcommittee assignments. We would have to restore some kind of alliance between conservatives in both parties. Congress might be able to revert to the earlier situation, but it certainly is not automatic, and in the current environment, it is not likely.

One reason why it is not likely is that few current Members were in Congress prior to the 1974 Act. They do not have a sense of how Congress once functioned under tight control and effective leadership. Members who are accustomed to the advantages of legislative fragmentation are not likely to easily give up their discretion in favor of budgetary discipline. But it is interesting that new Members tend to be more supportive of the budget process than the older ones.

The world of budgeting was a lot simpler in the postwar era. Because entitlements were only a small portion of the budget, most spending went for the operations and expenses of government agencies—salaries, supplies, equipment, etc. This form of spending evoked fewer and less intense demands on Congress than the ones which emanate from recipients of Federal checks. Congress could rebuff agencies request for more spending through the normal appropriations process. But pressure for spending on entitlements cannot be confined to the appropriations area alone; it radiates through the legislative process and is accorded special protection through devices such as indexation and permanent appropriations.

In those seemingly good old days, when the budget was spent on the internal business of agencies, the budget was virtually a closed book. As late as 1970, it was very hard for people who were not part of the inner circle of budgetmakers to know what the number meant in terms of programs or spending levels. Today the whole is watching the budget process. I was at Brookings Institution in 1970 when Kermit Gordon called together a little group and argued that nobody understands the Federal budget, Brookings should produce an annual study on "setting national priorities." Nowadays, within days after issuance of the President's budget, the mayors issue an analysis of the budget. The hospitals, the building industry, the farmers, and many other interest groups do the same. There are literally thousands of people in Washington who monitor the

budget, and the activities of Members and Committees on particular budget issues.

It may be that the legislative process does not work all that well when everybody knows what is going on because of all the pressures it generates.

In the good old days, the House and Senate Appropriations Committee met in conference in a small room sized like the Rules Committee. Only one staff person—a tally clerk—was present. Lobbyists and other interested parties remained in the corridor and heard about what happened after it happened. It was a lot easier to say "no" in that environment. Nowadays, the Appropriation Committees almost always meet in open session, and each member has one or more staff persons who can assist in the preparation of amendments. Interested parties have ample opportunity to monitor committee actions and to inform Members of their interests.

As a consequence of the changes in Congress over the past 10–15 years, it may not be possible to return to the old days. In fact, the old regimen was breaking down before the budget process was inaugurated. It can be argued that the 1974 Act was a response to the loss of fiscal discipline in Congress due to the developments recounted above.

It would be worthwhile to recall, therefore, the aims of the Congressional Budget Act. Foremost was the use of the budget as an instrument of fiscal policy, that is, as a means of influencing the level of economic activity, particularly to sustain economic growth while ensuring high employment and price stability. It is difficult to recall the optimism with which this objective was pursued because of the extent to which attitudes toward fiscal policy have changed in the course of a decade. While 1974 was the year of the first oil shock, that crisis had not yet registered on either our political or our economic consciousness. As late as 1974, the prevailing thinking in both political parties was that the budget can be effectively used to shape the economy, and that it is possible through prudent management of the budget to ensure economic growth without inflation and without unemployment.

We learned subsequently that the budget does not stabilize the economy, but the economy destabilizes the budget, so there has almost been a reversal of our sense of what can be accomplished via the budget. We have a situation where the budget is so sensitive to the performance of the economy, that it often is more unmade by the economy than it is made by Congress.

I do not want to get into a dispute over which economic policy—supply-side or some other approach—is appropriate. It is very hard for a budget process to be an effective tool of economic management when Congress does not know what works and when there is no broad consensus on what works. The fiscal policy consensus which we had in 1974 and which undergirded the Budget Act can be stated as follows: The National Government has the capacity to manage the economy; Congress shall be a full partner with the Executive in managing the economy; Congress can play this role through a budget process which brings together revenues and expenditures and compels it to take responsibility for the totals and the deficits; and therefore Congress should write the fiscal policy of the Nation.

That kind of confidence no longer exists. No repair of the machinery of the budget process by itself could restore that confidence.

So strong was the prevailing notion that the budget process should be used for economic management that some leading framers of the Act argued that budget resolutions should deal only with the key fiscal aggregates—total revenue, total outlays, etc., and that there should be no attempt to use the resolutions to set budget priorities by allocating funds among the various functions.

One measure of the extent to which confidence in fiscal policy has eroded is the current interest in a constitutional amendment to require a balanced budget. If it were approved, this constitutional amendment would be a limitation on the budgetary powers of Congress. It would imply that Congress cannot be trusted to do a good job in managing the economy and that, therefore, it would be better to limit legislative discretion than to allow Congress a full range of options in dealing with economic conditions. The economy would have to take care of itself—in bad times by recovering from recession—without the benefit of budgetary stimulus provided by Congress.

This perspective on the proposed constitutional amendment is independent of the substantive merits of a balanced budget requirement. It merely suggests that the amendment is animated by the belief that Congress cannot be left to its own will in steering the economy—either because Congress is too cross-pressured or weak to take appropriate action or because it is unsure of which action is appropriate. This attitude is a far cry from the 1974 Budget Act which put Congress in charge of economic policy.

When Congress changes revenue or spending levels, it is making fiscal policy, whether or not it does so with particular economic objectives in mind. But the fact that the budget has an effect on the economy does not mean that Congress is sure of what the effect will be or agreed as to whether the effect is desirable. Stagflation—the combination of high inflation and high unemployment—has had a paralyzing effect on fiscal policy in Congress, for action taken to ameliorate one of these ills can exacerbate the other. In this circumstance, inaction which results in unintended effects might be the favored option on Capitol Hill.

Another objective of the 1974 legislation was to restrict the budgetary powers of the President. President Nixon had impounded many billions of dollars appropriated by Congress, and the Budget Act was seen as a means of advancing congressional priorities over those of the White House. Moreover, if Congress had its own budget process and restricted spending and the deficit to the levels approved in its budget, then the President would no longer be justified in claiming that he had impounded funds because Congress was fiscally irresponsible. Thus, impoundment control and budget control were seen as complementary features of an overall congressional budget process in which Congress would reclaim the power of the purse that had slipped from its grasp in previous decades.

Recent experience has shown, however, that relations between the two branches are more a matter of politics than of budgetary procedure. In 1981, for example, not only did President Reagan get Congress to go along with more than $10 billion of impoundments,

he also succeeded in imposing his fiscal and program priorities on Congress. Of course, if political sentiment shifts, Congress might again advance its objectives over those sought by the President, but if this occurs, the procedures of the Budget Act will not be the principal factor.

A third purpose of the 1974 Act was to control federal spending, though this issue stirred a great deal of controversy. Some Members of Congress argued that the main purpose of the Budget Act should be to control and limit Federal spending. To achieve this end, they urged that Congress should go on record with respect to the totals and the functional amounts within those totals, and then it should be bound by that decision.

The emphasis on control was reflected in proposals for a binding first resolution and for only one (rather than two) resolution and that if Congress were to revise the resolution later in the year it should be only by extraordinary majority.

The final objective of the Act was with respect to priorities. Congress should establish its priorities, and that these priorities should prevail rather than the President's. As I have noted, the Act was framed during a period of disputes between the President and Congress about the withholding of funds. Let me suggest that even in the absence of a budget process, Congress historically has had a capacity for establishing priorities. Indeed, it could be that the operation of the Budget Act impairs the ability of Congress to establish priorities and makes this task more conflict-ridden.

Let me explain why. In the past, Congress did change priorities. All of us have seen statistics that show that in the 1950s military spending constituted almost half of the total Federal budget. By the 1970s, defense was down to a quarter of the total budget. This was a dramatic change in Federal priorities. Congress managed to reset those priorities by putting defense and other spending on separate growth paths. Defense would grow a little or hardly at all and in many years much less than the rate of inflation, whereas other programs were given substantial real growth. What Congress did not do was to have a priorities debate, defense versus domestic programs, guns versus butter.

The earlier way of setting priorities kept legislative tensions low. It was possible to change priorities quite significantly without opening up all sorts of conflicts. But the Budget Act invites heated debate; in a single resolution, Congress must vote on defense claims versus domestic claims. Understandably, therefore, it fuels the sorts of conflicts which are raging right now. It turns out that between 1974 and 1980, there were smaller changes in national priorities than there were in the preceding half dozen years, before there was a Budget Act. Since 1980 there have been significant changes in budget priorities, but they have been achieved through the very contentious mechanism of reconciliation.

Congress has not had in-depth defense debates despite the fact that there is a budget process. The budget process has not set the stage for priorities debated on the floor in terms of how much we should spend on defense and whose programs we are cutting. This is a paradox which needs explanation. In the early 1970s, before there was a budget process there was a big debate almost every year on defense. The debate was not largely about dollars, it was

about U.S. policy. One year it was about SALT, another year about strategic forces in Europe. Those debates usually were in connection with the authorization bill rather than the appropriation bill. I suspect, although I have no way of proving it, that the recent overwhelming attention to the budget process has had the effect of defining virtually all legislative issues in money terms, and this fiscalization of debate has almost driven out a sense of priorities. Budgeting has become a numbers game, not an examination of policy options.

When it comes to the defense budget, Congress is talking in terms of how much instead of what for. The reason for this is that the adverse condition of the economy and the budget process have fiscalized legislative debate and cast it in dollar terms. I do not think it is the budget process alone which has so crowded out substantive policy issues, but the process has contributed to that trend. I am not so sure that from the perspective of Members who want a genuine priorities debate that that is a good thing.

The budget process clearly has limited the time available for legislative debate on appropriations. In the first years, it crowded appropriations because of the determination to enact all spending bills by the start of the fiscal year. In recent times, appropriations have been crowded out because of the delay in adopting the first budget resolution. But one should be wary of attributing this phenomenon to the budget process alone. The budget process is only one of a large number of things which happened to Congress in the 1970s. Let me mention a couple of these developments. In the seventies, there was a fourfold increase in the number of roll calls. The trend has begun to move downward in the last couple of years in the House. There was a huge increase in the floor amendments. This was due in part to the Legislative Reorganization Act of 1970 which allowed record votes in the Committee of the Whole. But the roll call trend was almost identical in the Senate. I think this trend was due to a larger political factor: The independence of rank and file Members. No opprobrium attaches now to a Member who offers an amendment. The 68 amendments to this year's budget resolution symbolizes this sense of independence. Would you believe 20 years ago there were not 68 House Members who would have considered it proper to offer a floor amendment to an appropriation bill. Even if they did not like what was done, they would have regarded the Committee as the experts.

If Congress has less time for debating, it is not simply the Budget Act that is responsible. To the extent that the House is a more open institution, it is more vulnerable to floor amendments, roll calls, legislation by exhaustion, and legislation by hostage. Once upon a time, an extraneous amendment was called a rider. The word indicated that an unrelated provision was attached to a bill. In the 1970s, Congress was more troubled by vehicles than by riders. The difference is subtle. A vehicle is anything which can accommodate a large number of amendments, not just one. Appropriation bills have become favorite vehicles.

It could be that some of the crowding out is due to a tendency to avoid major legislative issues until the first budget resolution has been disposed of. But here, too, one must go beyond the Budget Act to understand the paralysis that has gripped Capitol Hill. The

plain fact is that even before the budget process was implemented, Congress was experiencing a decline in legislative productivity. From 1790 until the 1960s, there was an uninterrupted increase in the number of public laws passed by Congress. During a period of more than 150 years, each decade had more public laws produced than the previous decade. Since the 1960s and accelerating in recent years, there has been a decline in these enactments. The first session of the 97th Congress had fewer laws passed than any year in 30 or more years.

I do not believe that the Budget Act alone explains this trend. When Members or the leadership say that they want to wait until the first resolution clears, what they mean is that they want to wait until the dust clears, until they can put together a majority for the bill or they want to wait until it is so late as to discourage floor amendments. In other words, there are all sorts of other reasons behind this trend, but the demands of the budget process have exacerbated the problem. It is not the genesis of the problem, but a further irritant.

Sometimes the budget process is used as an excuse to delay legislation, but the Budget Act is not the real reason for the delay; the reasons lie elsewhere.

Let me turn to a number of issues, one of which I alluded to earlier, which were considered by the framers of the Congressional Budget Act of 1974. If this task force were to reconsider the budget process, it should reopen those questions, because they raise essential issues concerning the design of the process.

The first is that Congress has to decide whether to enforce its budget decisions by point of order or by information. The original version of the budget legislation which came out of the Joint Study Committee on Budget Control had more than 20 instances where points of order could have been raised on the floor, to bar legislation deemed to be in violation of the budget.

There was, for example, a provision called a "rule of consistency," under which any floor amendment would have been out of order unless it maintained the arithmetic consistency of the budget resolution at that point in time. A floor amendment, for example, to raise spending, would have had to show either a larger deficit or propose an offsetting reduction in expenditure in another part of the budget.

There was considerable concern, however, that a large number of points of order would foul up the legislative process and make it almost inoperative. In the enacted version, therefore, Congress retained very few points of order. There is really only one substantive point of order—the section 311, prohibition against revenue or spending measures that violate the totals in the second budget resolution.

In lieu of control by points of order, the Budget Act provided for control by information.

The logic of the Budget Act was that Members of Congress should be informed whenever they make a budget-related decision. They should have scorekeeping reports, crosswalks, cost estimates, and other types of information that would show the budget consequences of their actions. This data would ensure that they behave in an accountable and responsible manner.

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The issue before the task force is whether information is an effective substitute for points of order. What we now know is that information itself is not always objective; it is part of the budget battle. Projections have turned out in some years to be very unreliable. Numbers tend to get discredited in the debate. It is possible for Members to vote for higher spending simply by not informing them of the reestimates that raise expenditure levels. As a result, Congress can make believe, as it did with the second budget resolution last year, that spending and the deficit are lower even though the facts (if they were known) would show otherwise. Information has become a tool for busting the controls rather than for maintaining them.

I am not suggesting that the task force go back to points of order as the principal means of budget control. There was legitimate concern that 20 points of order would indeed stop the legislative process in its tracks. I hesitate to mention what it would do to the Rules Committee, which would be the place where everybody would go for relief. But that is an issue you have to face. Is there a way to make control via information more reliable? What can be done to upgrade the quality and objectivity of the information upon which self-enforcement of budget decisions depends? Perhaps projections should be entrusted to a politically neutral body which ensures that they are predicated on widely-accepted assumptions about economic conditions. Perhaps reestimates should be entered into the budgetary data base at regular intervals, not at the discretion of congressional officials. Perhaps control by information should reach down to individual functions and committees, with points of order available when these sublimits are breached. I mention these possibilities to sensitize the task force to the fact that the system does not work.

A second issue considered by the developers of the Budget Act can be characterized as line items versus aggregates. There was recognition when the Act was framed that budget control cannot be effective if it is restricted to total expenditures. Consequently, it is necessary for the budget resolutions to deal with the components that make up the budget. But if the resolutions dealt with particular programs, they would be vitiating the work done by the authorizing and appropriating committees. The artful compromise of the 1974 Act was that budget resolutions should deal only with functions; they should not get into line items. Nevertheless it is interesting that although technically speaking floor amendments deal only with functions, the verbiage which surrounds the amendments builds up a legislative history with respect to line items. The Members are aware that although technically they are voting on functions, they are really voting on programmatic issues. Short of closing the resolution to all amendments, it is hard to prevent this.

One possible way of dealing with this problem would be to limit the number of amendments that can be offered to a particular function. The argument in favor of limitation is that if it is dollar rather than a programmatic issue, we should give members an opportunity to vote more or less money for the function, but we do not have to give them more than one opportunity to vote for more or more than one opportunity to vote for less. If Congress gives

them multiple opportunities, it is not really a vote on the numbers, it is a vote on the programs underlying the numbers.

There is an obvious problem with this approach, however. How is it to be determined—and by whom—concerning the amount of increase or decrease that Members are to be permitted to vote on? The opportunity to "game" the budget process by selecting high or low levels cannot be ignored. If Members were restricted in their options, the budget resolution would not be a true measure of their preferences, and this would be more destructive of the whole process than would occasional dabbling in line items.

In my view, the task force should recognize that there are limits to what can be accomplished through House rules, short of shutting off the legislative process. The reasons why Members are interested in the line items are so compelling to them, that it is hard to prevent them from pursuing these interests through floor amendments. The remedy would be worse than the problem.

An alternative proposal is that there be no amendments to the first budget resolution on the basis that after the budget resolution, the appropriations process takes place and Congress can apportion funds in the second resolution, in a reconciliation act or in appropriation bills. I am not sure whether this procedure would have the intended effects for two reasons. First, what is the quality of a resolution which Members feel was not their own resolution, because they did not have an opportunity to amend it? Second, if the budget resolution is not open to floor amendents, it is inviting for members to vote unrealistically low on the totals, and to avoid any effective means of enforcing those totals. Since they do not have to take responsibility for the parts, even though technically they vote for them, they have an incentive to vote for smaller deficits, and cheap shot the resolution that way.

A scheme that would ameliorate both the tendency of Members to "line item" budget resolutions and the proliferation of floor amendments would be to organize House consideration of the budget resolutions in a way that focuses floor action on comprehensive substitutes rather than amendments on individual functions. This arrangement might work as follows:

The rules of the budget process would provide that amendments in the nature of substitutes be privileged and that votes on them occur prior to consideration of any amendments to particular functions. Substitutes would be defined as amendments which make significant (above a minimum level or percentage) changes in the budget aggregates and/or amend not fewer than a designated number of functions. Republicans would have an opportunity to vote for a Republican substitute, Democrats for a Democratic version of the budget, liberals, conservatives and others would have comparable opportunities to offer comprehensive substitutes.

The preference for comprehensive substitutes as a logical means of organizing budgetary debate in Congress arises out of the fact that a budget is a set of decisions in which the parts and the whole must have a coherent relationship to one another. The key issue in budgeting is not simply how much should go for a particular program, but how much should go to all programs and what should be a particular program's share of that total. The political art of budget making is to put together a package that can attract major-

ity support. Not every item of the package has to be decided in the budget resolution; after all, Congress does have authorizations and appropriations in which these individual matters can be resolved.

A third issue debated when the Budget Act was developed was once regarded in terms of ceilings versus targets but in the context of current budget practices pertains to the number of required budget resolutions. Among the many compromises that animated the 1974 Act was the decision to have two budget resolutions each year, the first to be a target, the second to be a ceiling on budget authority and outlays and a floor on revenues. Quite early in the application of the Budget Act, however, it became evident that the second resolution is adopted too late in the session to be an effective means of enforcement and that if the first resolution is treated simply as a target, there is no effective means of maintaining budgetary discipline.

The actual operation of the budget process has been modified in recognition of this problem. Reconciliation has been shifted from the end to the start of the annual budget cycle and Congress has begun to make do with a single resolution that automatically becomes a ceiling on expenditures when the next fiscal year commences. Yet one cannot be sure whether the process has been improved or only simplified. The key issue is not whether to have a binding first resolution but how to enforce the limits set by Congress. Whether the binding decisions are made early or late in the process, the name of the game is to enforce those decisions. Making the decisions is the easy part of the process; making them stick is the hard part. The budget resolution is not self-enforcing; hence, Congress must develop the will and capacity to discipline its own revenue and spending instincts to implement its budget objectives.

The 1974 Act subscribed to the notion that majority rule should prevail in Congress. In practice, the majority can adopt any budget resolution it wants. It it wishes, Congress can adopt a balanced budget, or it can vote for as large a deficit as it wants. The only substantive impediment to majority rule is the bar against revenue legislation below, or expenditure measures above, the totals in the second resolution. But a majority can overcome this impediment by adopting a revised resolution any time during the fiscal year.

The task force might examine the question of whether the budgetary powers of a majority, that is, of Congress itself, ought to be significantly restricted. One option is that the original revenue and expenditure decisions be changed only by an extraordinary majority such as two thirds vote. Another option would be to arrange the consideration of a budget resolution so that the aggregates are approved first, after which the House would be bound to adopt functional allocations consistent with that original determination. Congress would not be able to raise or alter the totals merely as a by-product of decisions on the functions, as is now the case. Moreover, a revision of the totals might be permitted only by a special majority, thereby requiring Congress to make its original decisions with great care.

There is one critical problem with all restrictions on the majority. The House can, by majority vote, adopt a rule waiving any of its standing rules, including the requirements of the Budget Act. On a number of occasions, for example, the House has adopted a rule

waiving the section 311 restriction. The notion that the House can waive any of its rules is deeply embedded in the traditions of the House. Inasmuch as the Budget Act, even though it was enacted into law, functions as a rule of the House, there is a simple expedient by which the majority can prevail.

These considerations lead to the conclusion that the task force should be wary of recommending any procedure that departs from the principle of majority rule. The House will be able to circumvent the procedure if it wants to, and there would be little gain in budgetary discipline.

The next issue is the role, if any, of the President in the congressional budget process. In the tense atmosphere of 1974, many Members of Congress saw the Budget Act as a declaration of legislative independence. They were going to set themselves apart from the President and accomplish their own objectives, without any Presidential involvement or excessive influence in the process. It turns out that this is both impossible and unwise in our system of government because the President is an actor on the legislative stage.

Even if we did not have President Reagan so forcefully concerned about his budget priorities, we would still have Presidential involvement. Jimmy Carter, some of you may recall, proposed a $50 tax rebate in 1977. The Budget Committees fell in line. The President pulled the plug on the rebate, and the budget committees again fell in line. So it is not realistic to think in terms of congressional action independent of the President.

But beyond that there is another reason why Congress should welcome Presidential participation. There are many actions which Congress cannot undertake without some shelter. Congress is politically a very vulnerable institution when it tries to take away benefits. To do it requires consensus rather than confrontation. Social Security illustrates this problem. To the extent that a consensus is possible between the President and Congress on various issues, it is possible for Congress to move rather boldly. Absent a consensus and therefore absent a shelter, it is very hard for Congress to move. If Congress wants to be an independent branch, it is also an exposed legislative branch, and it has to face up to that predicament.

In rewriting the Budget Act, I would suggest that you give careful if only quiet attention of the political concept of sheltering; by which I mean: How to make it easier rather than harder for Members of Congress to do the tough work that they have to do? Every change made in the process should be tested in terms of this criterion: Would it be easier or harder for Members to behave in a responsible manner when faced with contentious budget issues?

I need not remind you that the Rules Committee has been at its strongest when it provides shelter for the House. I am not saying you should go back to that particular role, because there was a down side to it as well. But in the context of the budget process, when Members of Congress are totally exposed, rather than getting more responsibility, you might get less. One role of the President, like it or not, is to provide some measure of shelter for Congress when Members face tough budget issues.

The 1981 budget was a perfect example of a shelter. What Congress did on reconciliation could not have happened were it not for

the fact that it was accomplished with one vote. One of the ways you shelter is by "exporting" blame for unpopular decisions. Historically Members exported the blame for inaction to the Rules Committee. In reconciliation, they export it to the Budget Committee. One should not denigrate that kind of behavior. The Budget Committee, if it cannot absorb the blame for others, cannot be successful.

Another way of sheltering, is to have fewer votes. In this correlation, the task force might reexamine the relationship between the budget, appropriation, and authorization processes. That might be too much for this task force to bite off, but I would suggest that when the very same issue comes up at least three times in a single budget cycle—in a budget resolution, in an authorization bill, and in an appropriation bill—sometimes in the same session, sometimes in the same month, you invite a lot of the aberrations which have beset Capitol Hill in recent years.

At any rate, sheltering is a critical political dimension, but I would not write a Budget Act whose only purpose was to protect Members, because that might not make for a good budget process. You have to combine this test with several others. Perhaps the best approach is to protect Members in a way that also produces a responsible budgetary decision.

I do not mean responsible in terms of any particular outcome or preference, but in terms of the process by which the decisions are made. A responsible budget process is one in which Congress is informed of the budgetary implications of its decisions and is accountable for them. In my view, the "package" idea discussed earlier would provide a good balance between protecting Members on the one hand and making them stand up and be counted for their budget decisions on the other.

Party leaders can play a role in maintaining a responsible budget process. In the early years of the process, the two parties took a direct role in determining the membership and political composition of the House Budget Committee. But over the past half dozen years, there has been a progressive enlargement in the role of party leaderships. In 1981 and this year, the leaders have taken active roles in shaping budget outcomes. This activity is largely a response to the extraordinary involvement of the White House in congressional budget affairs, but even before the Reagan Administration there was evidence of unusual party influence over budget policy. This is one area of legislative activity where the Democrats and Republicans have not been tweedledee and tweedledum. There has been a great deal of party-line voting on budget resolutions as the two parties have formulated alternative policies reflecting wide differences in budget priorities.

In the Senate, the party conferences have had a major role in shaping the congressional budget and in offering Members alternatives to the policies put forward by the President or by the budget committee. In the House, the Speaker established task forces several years ago in order to get the budget resolution through. Last year and this year as well, the parties gave shape to the main alternatives which came before the House. The issues that come before the House in a budget resolution should be ones which already have widespread, not necessarily majority, support, but suffi-

cient support so that they merit a separate vote of the House. That is an appropriate task for the major parties.

The down-side is that it would require the parties to be much more involved in the legislative process than may be comfortable for individual Members. Involvement by parties injects more divisiveness into budgeting. Individualized budget issues typically generate low-level friction. A member may lose on his or her amendment, but still vote for the budget resolution; therefore the resolution can be approved by a majority even though most Members might prefer a different version than the one they are voting for. Once you bring parties into the picture, major components of the House can be expected to line up against that party position. It could be that when the House is faced with competing budgets advanced by the parties, if party discipline is weak, in some years it will be hard to get anything adopted. Members of the opposition party and defections from the party offering the budget will suffice to defeat any budget resolution brought to the House.

The growth of party involvement should be a natural evolution, which would permit the party role to grow apace with party discipline. It would be harmful, I believe to formally assign each of the parties a role in the process; to do so, would be at variance with the contemporary operation of Congress. Nevertheless, in restructuring the budget process, the task force should consider whether proposed modifications are likely to enhance or diminish a responsible role for the parties.

The last item is the relationship among the appropriations, authorization, and budget processes. As we know, the budget process was really established as a coordinating device. Authorizations and appropriations would continue and be linked to the budget resolutions. But the role of the authorizations or the appropriations processes would not be directly changed. This was the logic of the 1974 Act. A number of things have happened which do not impair that logic, but invite a review of it. There has been an erosion of the boundary between the authorization and appropriations process. There are more annual authorizations and more substantive provisions in appropriations bills. There are more dollar provisions in authorizations.

The triplication of effort—authorizations, appropriations, and budgets—has so overloaded the legislative calendar that it becomes difficult for Congress to deal in an annual session with anything which is not regarded as must legislation. In the last two Congresses, if a matter has not been defined as must legislation it usually has not been able to get to the floor.

A decade ago, before the Budget Act was enacted, some observers, including Alice Rivlin who was then associated with the Brookings Institution, proposed that the authorization and appropriations processes (and the committees responsible for them) be combined. It would not surprise me if similar proposals were to reemerge in the future. In considering such proposals, Congress would do well to review the reasons for having separate authorizing and appropriating processes. It turns out that these major legislative activities have been separate since the inception of Congress almost 200 years ago. Congress separated money decisions from legislation because (1) it did not want conflict over substantive mat-

ters to delay the supply of funds to government agencies, and (2) it did not want substantive measures enacted as "riders" to money bills. Over time, this separation took on an added purpose, to ensure that legislative power is widely dispersed. There was great fear in Congress that if the same committees and Members were in control of both financial and substantive policy, they would dominate the whole legislative process. By having two distinct processes, Congress divides legislative power and functions by a division of labor which gives most Members and committees some influence.

But the actual operation of these distinct processes has changed significantly over time. Through most of the 19th century, authorizations were assumed "generic." The legislation setting up an agency was deemed to be the authorization, even though the phrase "authorized to be appropriated" was not used. In the late 19th and early 20th century, Congress began to move from implied to explicit authorization, and the phrase "authorized to be appropriated" became common. The reason for this development may have been changes in House and Senate rules strengthening the distinction between authorizations and appropriations which induced the House and Senate to be more explicit about the types of legislation they were producing. These explicit authorizations did not mention any money; in almost every case, they were for "such sums as may be necessary" to carry out the program. They were permanent authorizations which did not require periodic renewal by Congress. This meant that Congress had to act on the annual authorization bill but not on the annual appropriation.

After World War II, Congress began to convert some permanent programs to temporary authorizations and to enact many new programs on a temporary basis. This temporary legislation not only had to be reauthorized frequently; it also tended to be for definite amounts of money. Instead of authorizing such sums as may be necessary, Congress authorized for fixed amounts, and in the case of annual authorizations, for the amounts it expected Congress to appropriate. As a result of this development, authorizing legislation has, in some cases come to resemble appropriations, and distinctions between the two types of congressional measures have diminished.

As authorizations and appropriations have become more alike, there have been proposals to simplify the two processes and reduce congressional overload. One idea, mentioned earlier would be to integrate the appropriations and the authorizations processes. The budget process then would be the big-picture process, and individual programs and the money for them would be considered in a separate combined process. I do not think that is going to happen right now. There will come a time when the relationship between the appropriations and authorization committees will be fundamentally altered, but there has to be more breakdown and paralysis before members are likely to endorse such a far-reaching move.

On the other extreme are proposals which would convert the budget process from a coordinating mechanism, into a process by which legislative decisions are made. Mr. Obey and Mr. Gephardt have endorsed that kind of proposal. Their logic is that as long as the budget resolutions do not have statutory effect, Members are not really responsible for what they are doing. They would have a

procedure whereby the budget resolution would become the vehicle for making statutory spending and revenue policy. The Obey-Gephardt approach is similar to the procedure in a number of parliamentary systems. The finance law reflects the budget as presented by the government, and contains revenue changes, appropriations, and other financial decisions. thus an omnibus finance law is passed. The reason that can work is because parliament really does not make any significant changes in the budget. In some cases parliament does not even make insignificant ones.

A version of the omnibus approach is currently used by Congress in the form of an omnibus reconciliation bill. Reconciliation can be a tremendous process if it is used with restraint. And by restraint I simply mean that it should not be used to change discretionary authorizations and appropriations. It should only reach to entitlements and changes in existing law. The changes in existing law can be current appropriations. In other words, if Congress wants to rescind an existing appropriations, it can use reconciliation for this purpose.

The Budget Act did not really intend that reconciliation affect either discretionary spending or new appropriations.

Reconciliation was moved to the start of the budget process in recognition of the fact that the most uncontrollable part of the budget is existing law, especially entitlements and other mandatory programs. Until 1980, Congress played a game with respect to those entitlements. The Budget Committees would assume legislative savings through changes in existing law but these legislative savings were in the reports of the Budget Committees, not in the budget resolution. The House and Senate did not explicitly vote on those legislative savings, but nobody did anything about them. So everybody claimed savings, but spending continued at a higher level. It was to address this particular problem that reconciliation was initially moved to the start of the process instead of the end of the process.

PRESENTATION BY ALLEN UNSWORTH, MINORITY STAFF CHIEF ECONOMIST, HOUSE BUDGET COMMITTEE

From time to time in the last few years, monetary policy and fiscal policy have been very much out of sync. This makes it more difficult for the economy to remain on a stable growth path. That is why it is important for this task force, in its consideration of the congressional budget process by which fiscal policy is determined, to also consider issues of monetary policy. Unfortunately from a political perspective, there are no easy ways to better coordinate monetary and fiscal policy.

Let me briefly say what monetary policy is, how it is executed, and how it impacts on the economy. Basically, monetary policy is the manipulation of various financial variables over which the Federal Reserve System has some or complete control, with the purpose of influencing certain key economic variables, the behavior of which defines the overall quality of economic performance. The financial or instrumental variables on which the Fed operates are the monetary aggregates and interest rates, primarily the so-called federal funds rate. The former include the monetary base, the vari-

ous money variables, and the quality of credit outstanding. These variables are defined in the glossary at the end of this presentation.

Currently the prime focus is on the control of the growth rate of the monetary aggregates—primarily M_1—although the Fed also keeps its eye on the behavior of key interest rates. The basic mechanism by which the Fed controls the growth rate of the money stock (however defined) is through the purchase and sale of government securities in the open market, so-called open-market operations.

If the Fed wants to increase the money stock it will purchase government securities of the desired amount through a broker. Immediately the money stock will go up by the amount of the Fed's purchase as the broker deposits the proceeds of the sale in the banking system. More importantly, bank reserves will also rise by the same amount when the receiving bank returns the Fed's check for payment. The banking system now has excess reserves since it need not hold $1 of its new reserves against each $1 of its additional deposits. It is, therefore, in a position to make additional loans which it does by creating bank deposits in the name of the borrowers, thereby adding to the money stock. Ultimately, the total volume of monetary aggregates in circulation will rise by some multiple of the additional reserves acquired through the Fed's open-market operations. For example, if banks want to hold reserves equal to 10 percent of their deposit liabilities, then every dollar added to the total stock of reserves will lead to an increase in the money stock of $10. I should also note that open-market sales of government securities by the Fed will have the opposite effect of open-market purchases: bank reserves and the money stock will fall.

Interest rates will also be affected through open-market operations. When the Fed goes into the market and purchases government securities it will, if the market is in equilibrium, bid up their price or, what is the same thing, lower their yield. The federal funds rate, the rate at which banks lend reserves to each other, will also fall as the total quantity of bank reserves increases. Finally, interest rates on bank loans should also decline as financial institutions attempt to induce businesses and individuals to borrow the increased quantity of loanable funds. Federal Reserve open-market sales would tend to have the opposite effect on interest rates.

In short, whether the Fed wants to focus on the growth rate of monetary aggregates or the level of interest rates, its principal tool is open-market operations. If it wants to focus on the former it will engage in open-market operations of the magnitude necessary to achieve its desired monetary growth rate letting interest rates adjust as they will; if the Fed desires to target the latter it will purchase or sell securities in the amount necessary to bring interest rates to their desired level regardless of the monetary growth rate this implies.

All of this no doubt sounds very mechanistic and easy, but in fact the Fed's ability to control money growth or interest rates with any degree of precision is severely limited. The only variable the Fed directly controls with its principal tool, open-market oper-

ations, is the growth of bank reserves, the major component of the monetary base. It is for this reason that a number of economists advocate focusing on the control of the monetary base. To what extent a given increase in bank reserves or the monetary base will lead to a particular increase in the money supply depends crucially on the banks' willingness to lend and their customers' willingness to borrow the excess reserves thus created.

For example, it seems plausible that a given increase in bank reserves will result in a greater increase in money growth during a business upturn than during a business downturn. Similarly, bank deregulation which led to the creation of new types of deposits paying market-determined interest rates caused a significant, if temporary, increase in the growth rate of monetary relative to nonmonetrary financial assets independent of policy actions taken by the Federal Reserve System.

Likewise the Fed's impact on interest rates is likely to be less than certain. If financial markets are in equilibrium and interest rates are stable, then an open-market purchase of a given size should lower interest rates by a predictable amount, particularly that of the maturity purchased and the federal funds rate which governs the lending of bank reserves. However, if the markets are in disequilibrium, for example as a result of a sudden increase in private demands for government securities which would cause interest rates to drift lower without the intervention of the Fed, then an open-market purchase of the same size would now accelerate this decline by an uncertain amount. On the other hand, if interest rates are already beginning to rise as a result, say, of large Treasury financing demands, then the equivalent open-market purchase may lead to a moderation of interest rate pressures without actually bringing them down. Unless the Fed can anticipate and correctly judge the degree and direction of pressures over which it has no control in the financial markets it will have a difficult time in achieving its interest rate targets even in the short-run.

I might mention at this point that there is one interest rate over which the Fed has complete control, and that is the discount rate. This is the rate at which member banks can borrow reserves directly from the Fed. The fact that the Fed can extend credit to member banks in order to offset temporary reserve shortfalls has led some analysts to measure the ease or tightness of monetary policy by looking at the rate of growth of non-borrowed, rather than total, reserves on the grounds that the banks' borrowed reserves must soon be paid back to the Fed and, therefore, cannot permanently support higher levels of money and credit aggregates. The Fed does not often use changes of the discount rate as a tool of monetary policy. When it does, it may encourage banks to enhance their reserves and thus to induce at least a temporary change in monetary and credit growth and interest rates. The primary importance of the discount rate is that changes in it signal the direction that monetary policy is likely to take in the future.

MONETARY POLICY AND THE ECONOMY

Ultimately, of course, the Fed does not want to control the monetary aggregates or interests for their own sakes, but rather to influ-

ence the rate at which the economy is growing and/or the rate of inflation. What, then, are the links between monetary policy and the economy? To answer this question it is useful to use the framework of the "quantity equation" which is defined in the glossary below. That equation, which is always true by definition, states that the quantity of money in circulation in a given year multiplied by its annual rate of turnover must equal that year's level of nominal GNP, or equivalently, the level of real GNP times the price level as measured by the GNP deflator. Symbolically, $MV=PQ$. Since, in general, economic policy focuses on rates of change, the quantity equation can be expressed in terms of percentage changes. In that form, the percentage change in the money stock plus the percentage change in velocity equals the percentage change in nominal GNP.

From the quantity equation it is obvious that changes in the quantity of money must lead to changes in nominal GNP unless velocity were to fall by a proportional amount. That would be the case if the total increase in money simply went into idle cash balances and was not spent. In fact movements in velocity are fairly predictable over time. It generally grows at 2 to 3 percent per year as continuing innovations in the financial sectors permit economizing on the use of cash balances. With changes in velocity reasonably predictable over time the Fed can set monetary policy consistent with the achievement of its desired level of nominal GNP growth. Unfortunately, the Fed has no way of precisely determining how the growth of nominal GNP growth will be divided as between changes in real GNP and changes in prices. However, we can say in general that a given rate of monetary expansion will lead to larger changes in real GNP relative to prices the farther away the economy is from the full utilization of its productive resources. Consequently as the economy approaches full employment the Fed should adjust its nominal GNP growth targets—and, therefore,—its money growth targets downward.

The only time in recent years when this reasonably predictable relationship between money and nominal GNP growth broke down was in 1982–1983 when, as I explained earlier, the financial innovations consequent upon bank deregulation led to an increase in the demand for money balances. The result was that velocity actually fell during this period, so that even the relatively stimulative monetary policy of late 1981 and early 1982 did not lead to the desired nominal GNP growth. It was, therefore, necessary for the Fed to adjust its monetary growth targets upward, which it did in August of 1982. The result was that interest rates began to fall more rapidly and economic recovery took hold later that year. People seem now to have adjusted to the new financial instruments and velocity is back on its historic growth path.

One final question in connection with monetary policy needs to be addressed. That is, what is the transmission mechanism by which changes in money growth affect nominal GNP growth? One school of thought argues that monetary policy primarily influences spending through the changes in interest rates which we have already discussed. For example, increases in money growth lower interest rates, which in turn will lead to increased spending on those items which are sensitive to interest rate changes. Followers of this

line of reasoning would argue that the Fed ought primarily to target interest rates as the means of reaching its nominal GNP targets.

A second school of thought argues that the relationship between money growth and GNP growth is direct and that, for example, an increase in money growth should lead to a roughly proportional increase in nominal GNP regardless of what happens to interest rates. The reasoning in this case is that individuals and businesses want to hold a relatively constant proportion of their income in the form of cash balances. When the Fed increases money growth this ratio increases. In an attempt to restore the desired ratio, people will attempt to spend their excess cash balances. Collectively, of course, economic actors cannot get rid of the extra money, but their attempts will increase spending and GNP up to the point where the desired ratio of money to GNP has been restored. Those who subscribe to this reasoning would advocate that the Fed pay primary attention to the monetary aggregates rather than interest rates.

Prior to the fall of 1979, the Fed was primarily targeting interest rates. However, the major weakness of this approach is that the Fed can only control interest rates in the very short-run. For instance, if the Fed pursues an expansionary monetary policy and interest rates fall, the economy will expand and interest rates will begin to rise again. If the Fed wants to keep interest rates down it will have to engage in an ever more expansionary monetary policy with the predictable inflationary consequences.

This was the situation in 1979. The Fed was conducting an excessively easy money policy, prices were rising and the value of the dollar was depreciating rapidly on foreign exchange markets. Finally under pressure from our major trading partners, the Fed was persuaded to pay more attention to the the growth of monetary aggregates—a practice which it has more-or-less continued to follow to the present time.

A policy focusing on the growth of monetary aggregates presents certain problems of its own. In particular, as I indicated earlier, interest rates are likely to be more volatile. This makes investing in bonds more risky, so that lenders are likely to demand higher yields in order to compensate them for the added risk. On balance, however, the Fed's current approach to monetary policy has probably been an improvement over that of pre-1979.

THE COORDINATION OF MONETARY AND FISCAL POLICY

Having spoke at some lengths on the procedures and problems of conducting monetary policy let me say a few words about fiscal policy and its relation to monetary policy. Fiscal policy is represented by the budgetary stance of the federal government. Increases in expenditure and/or decreases in taxes will increase the demand for goods and services and cause nominal GNP to rise. Cuts in expenditures and/or tax increases will have the opposite effect. The size of the expansionary or contractionary influences of the federal budget on the economy can be measured by the size of the budget deficit or surplus, or more precisely by what the deficit or surplus would be if the economy were operating at high employ-

ment. By this measure the budget has been quite expansionary since 1982.

If the government is running a very expansionary fiscal policy at the same time that the Fed is pursuing a relatively restrained monetary policy (as it has been) in order to control inflation, then the potential for conflict is great indeed. If fiscal policy is expansionary then interest rates will rise more for any degree of monetary restraint than if fiscal policy were more neutral. This puts the Fed in a dilemma. It can refuse to accommodate the expansion thereby causing interest rates to rise excessively, and thus jeopardizing the continuation of balanced real economic growth; or it can finance some or all of the large deficits with the results that inflation accelerates. Neither of these outcomes is satisfactory, and the Fed will be put under intense and conflicting political pressures by those who advocate growth and those who advocate price stability. The result is that the Fed is likely to pursue a monetary policy that is satisfactory to neither group.

Up to this point the conflict has not materialized for several reasons. First, monetary policy has not been as restrictive on a year-over-year basis as it might appear from selectively looking at some of the weekly or monthly figures on monetary growth or the federal funds rate. Second, the large credit demands of the federal government have not yet clashed with those of the private sector, since the economy in 1982 and much of 1983 was operating at low levels of capacity utilization. Third, the business tax cuts of 1981 and rising profits have permitted much of that sectors credit demands to be financed internally. Fourth, large foreign capital inflows have contributed significantly to easing the strains on domestic credit markets.

To date, although the federal budget deficits have perhaps contributed, interest rates are abnormally high due to (1) the slowness of inflationary expectations to dissipate; (2) the increased volatility in credit markets; and (3) the necessity of deregulated financial institutions to pay market-determined interest rates to depositors.

Nevertheless the potential for conflict between monetary and fiscal policy remains and grows stronger as the recovery continues. This had led to proposals for more coordination between the Fed and Congress in the shaping of overall economic policy. Other proposals would drastically alter the Fed's operating procedure. Currently the only legal requirement for the Fed to communicate with Congress is a provision in the Humphrey-Hawkins Act requiring it to report to Congress semi-annually on what its monetary and economic growth targets are. This is explained in more detail in Appendix B. However, these targets are in the form of such broad ranges as to not be very useful.

Chairman Volcker and other members of the Board of Governors also frequently testify before congressional committees including the Budget Committees. However, little additional information useful in formulating the budget is communicated in these forums.

Suggestions for modest reform include presenting more precise monetary and economic targets, releasing the minutes of Open Market Committee meetings in a more timely fashion, and restoring the Secretary of the Treasury to the Board of Governors. More radical proposals would require the Fed to target interest rates, or

stabilize the price of some market basket of commodities, or make monetary policy goals subject to the ratification of the Executive and/or Congress.

All of these proposals would in some way reduce the independence of the Fed. While there are good arguments both pro and con for making the Fed more accountable to the political process, any changes in current practice would come as amendments to the Federal Reserve Act which is under the jurisdiction of the Banking Committees. No monetary policy issues are dealt with in the Budget Act. We have, however, in the past inserted "sense of Congress" language in budget resolutions expressing the need for more coordination between monetary and fiscal policy. The language in the FY 1983 and 1984 resolutions is reprinted in the chart entitled "Language on Monetary Policy." About the only thing that we could do at this point would be to make such language mandatory.

GLOSSARY OF TERMS

M_1: Currency, demand deposits and other checkable deposits including negotiable orders of withdrawal (NOW's) and Super-Now accounts.

M_2: M_1 plus overnight repurchase agreements (of government securities), non-institutional money market mutual funds, Eurodollars, money market deposit accounts (MMDA's) and savings and small time deposits.

M_3: M_2 plus large time deposits, term repurchase agreements, and institution-only money market mutual funds.

Velocity (V): the rate (annual) at which the money stock turns over. It is computed by dividing gross national product (GNP) by the average stock of money (M_1, M_2 or M_3) outstanding during the period.

Gross National Product: the dollar value of all goods and services produced for final sale during a given year.

GNP Deflator: an index of the weighted average annual prices of final goods and services produced.

Real GNP: GNP divided by the GNP deflator. This is a measure of the economy's physical output.

Quantity Equation: MV = real GNP $\times$ GNP deflator, or % ch. in M + % ch. in V = % ch. in real GNP + % ch. in GNP deflator.

Monetary Base: currently in circulation plus bank reserves.

Borrowed Reserves: bank reserves acquired by borrowing at the Fed's discount window.

Non-Borrowed Reserves: reserves banks acquire as the result of Federal Reserve open-market operations.

Open-Market Operations: the buying and selling of government securities by the Federal Reserve System.

Discount Rate: the interest rate the Fed charges member banks for the reserves it lends to them.

Federal Funds Rate: the interest rate at which commercial banks lend excess reserves to each other.

MONETARY POLICY SECTION OF HUMPHREY-HAWKINS ACT

As part of the coordination and planning mandate, the Full Employment and Balanced Growth Act also amends the Federal Reserve Act to require the Federal Reserve to submit to the Congress, beginning in 1979, independent written reports (by February 20 and July 20 of each year) setting forth (1) a review and analysis of recent development affecting economic trends; (2) the objectives and plans of the Board of Governors and the Federal Open Market Committee with respect to the ranges of growth or decrease of the monetary and credit aggregate for the calendar year during which the report is transmitted; and (3) the relationship of these objectives and plans to the short-term goals set forth in the most recent Economic Report and to any short-term goals approved by the Congress. In addition, as part of the July 20 report, the Board of Governors is to include a statement of its objectives and plans with respect to the ranges of growth or decrease of the monetary and credit aggregates for the calendar year following the year in which the report is submitted. The stated objectives and plans in these reports may be changed if the Board of

Governors and the Federal Open Market Committee determine that they cannot or should not be achieved because of changing economic conditions, provided that the Board of Governors in subsequent reports to and consultations with the Congress include an explanation of the reasons for any revisions to or deviations from these objectives and plans.

LANGUAGE ON MONETARY POLICY CONTAINED IN THE FISCAL YEAR 1983 AND 1984 BUDGET RESOLUTIONS

Fiscal Year 1983: Conference Report

It is the sense of the Congress that if Congress acts to restore fiscal responsibility and reduces projected budget deficits in a substantial and permanent way, then the Federal Reserve Open Market Committee shall re-evaluate its monetary target in order to assure that they are fully complementary to a new and more restrained fiscal policy.

Fiscal Year 1984 House Resolution

Section 6 expresses the sense of the Congress that monetary policy and the economic assumptions in the budget resolution shall be consistent with each other. The section further provides that it is the sense of the Congress that the Federal Reserve Board shall make certain reports to the Congress on the Board's objectives and their relationship to economic forecasts of the President, the Congressional Budget Office, and the Congress. The section further expresses the sense of the Congress that if necessary the appropriate committees of the Congress shall report legislation to require such reporting.

Fiscal Year 1984 Senate Resolution

Section 7 states that there is a need for coordination between fiscal and monetary policy, that budget deficits place a heavy burden on monetary policy, that reductions in budget deficits brought about by this budget resolution will reduce pressures on monetary policy, and that there is a need for vigorous economic growth consistent with reasonable price stability, and therefore the House Committee on Banking, Finance, and Urban Affairs and the Senate Committee on Banking, Housing, and Urban Affairs are requested to report to their respective bodies no later than June 30, 1983, a resolution expressing the sense of the Congress as to the coordination of the Federal Reserve's monetary policy with the fiscal policy reflected in this budget resolution.

PRESENTATION BY JAMES M. VERDIER, ASSISTANT DIRECTOR FOR TAX ANALYSIS, CONGRESSIONAL BUDGET OFFICE

There are two CBO publications that provide basic background information on tax expenditures. The first, published in September, 1981, is entitled "Tax Expenditures: Current Issues and Five-Year Budget Projections for Fiscal Years 1982-1986." It is designed to be a primer or a basic introduction to tax expenditures and their relation to tax and budget policy. It also reprints all of the tax expenditure budgets from 1967 on, for those with an historical or archeological turn of mind. The second, published in November, 1982, is entitled "Tax Expenditures: Budget Control Options and Five-Year Projections for Fiscal Years 1983-1987." It focuses in more detail on ways of controlling tax expenditures through the budget process, the topic of my presentation, which is essentially a brief summary of that report.

In order to give you a more specific idea of what we mean by tax expenditures, there is a list at the end of my presentation of the ten largest tax expenditures for both individuals and corporations. The Budget Act defines tax expenditures as:

Those revenue losses attributable to provisions in the Federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of tax liability.

There are some disagreements in borderline cases about what should and should not be classified as a tax expenditure, but there has been general agreement over the years on most of the items on the congressional and executive lists of tax expenditures. There are also difficulties in measuring tax expenditures. Some of these are analogous to the kinds of problems that arise in estimating outlays, but some are unique to the concept of tax expenditures. Since tax expenditures are revenues the government does not collect, they are always estimates of what might have been, rather than what is or was. These definition and measurement questions are discussed in detail in chapters I and II of the September 1981 CBO report.

In terms of what you might be seeking to accomplish by controlling tax expenditures through the budget process, there are essentially three goals you might have. One could be a fiscal policy goal: simply to increase or decrease overall revenues by a particular amount in order to help achieve particular goals for growth in the economy and unemployment and overall size of the Federal Government's tax take.

A second set of goals you might have could be tax policy goals: to improve the equity and efficiency and simplicity of the tax system.

A third set of goals you might call budget policy goals: they are more concerned with the allocation of resources of budget priorities. Here you would get into the uses that are made of tax expenditures to subsidize particular kinds of activities or relieve certain kinds of hardship.

The tax expenditure control options you might choose would depend on how important you consider these particular goals to be.

For example, if your main concern was simply a fiscal policy goal, the current floor on revenues that is in the budget resolution and the overall revenue target that is contained in reconciliation is sufficient. That does the trick. It gets you a particular revenue target.

If you wanted to get at tax policy goals to improve elements of the income tax system, then a separate ceiling on tax expenditures along the lines of the bill Congressman Bonior has proposed would be a better, more precise, way of doing that.

First of all, you have a smaller total, instead of dealing with $667 billion in total revenues which is what are projected to have in fiscal year 1984, you would have a smaller target, the $327 billion of tax expenditures that are projected for that year. Cutting back on tax expenditures usually achieves the tax policy goal of making the tax system a bit simpler. It also usually improves equity, and it usually makes allocation of resources a bit more efficient. There are cases in which it does the reverse, but, by and large, that is the way it works out.

You could include that separate target for tax expenditures in a reconciliation directive much as the overall target is included right now.

For example, you could say that in a particular fiscal year taxes shall be increased by $30 billion and $15 billion of this should come from cutting back tax expenditures, then leave it to the tax committees to decide how to proceed from there.

If you wanted to go further and really get a handle on the allocation of resources and shift the purposes for which tax expenditures

are used, or shift from tax expenditures to direct spending or loans to accomplish the same sort of goal, then there are a variety of things you could do. You could do it on an hoc basis. You would not really need to amend the Budget Act to do it. You would probably want to begin by including or breaking down tax expenditures by budget functional categories, as they are now, for information purposes. But you could include that in the resolution itself. There could be nonbinding targets as the credit budget allocations are currently.

Then, having done that, you would probably have to involve spending committees as well as the tax committees in the process, and there are at least three ways possible of doing that.

One is in reconciliation, where you could have a joint instruction to the tax and spending committees to achieve $5 billion in deficit reduction by either spending reductions or tax expenditure reductions in the income security category or the Social Security budget function, or whatever, and leave it to those committees to decide how that should be allocated.

In Social Security, for example, it could be some combination of benefit reductions, increased taxation of benefits, or higher payroll taxes. In that particular instance, it could all be done without involvement of the spending committees, because all of that is within the jurisdiction of the tax-writing committees.

Another approach would be to require referral of new or increased tax expenditures for a limited period of time to the spending committee that has jurisdiction over analagous spending programs. That would be similar to the section 401 procedure in the Budget Act which requires referral of excessive new budget authority to the Appropriations Committees.

The spending committees could then report back with their recommendations on what should be done with this proposed tax expenditure increase; or, if you wanted to make the consequences of it a little bit more serious, you could say if the spending committee recommended approval of the increase in tax expenditures, their spending allocation should be commensurately reduced. That presumably would cause them to take that review task a bit more seriously.

That procedure would be primarily designed to get at cases in which you wanted to have tax expenditures reduced or you wanted to have a fairly skeptical eye cast on them.

The third alternative would be recommendations by the spending committees to the tax committees.

For example, if the spending committees were confronted with a situation in which their spending allocation was being reduced, they could recommend to the tax committees that some analogous tax expenditures be reduced instead. The Banking Committees are currently faced with a situation in which their allocations for Section 8 housing for low- and moderate-income renters have been substantially reduced over the last year or so. They might come to the tax-writing committees and suggest that the depreciation periods for buildings be extended from their current 15 years to 20 years. That would increase revenues by increasingly larger amounts over the next five years. If the tax committees agreed to that, then some portion of that increased revenue could be assigned

to the Banking Committees in the form of increased budget authority for the Section 8 program.

The spend-out pattern for Section 8 new budget authority tracks the revenue increase pattern fairly well—small amounts in the early years, with larger amounts in later years as more housing units are put in place and more families are subsidized—so the tax increase and the spending increase are aligned closely over time.

You could work these kinds of tradeoffs in an ad hoc way when opportunities came up where they seemed appropriate to the committees involved and to Congress as a whole.

I believe the lessons that could be drawn from credit budgeting are that the process is most successful if it moves gradually and incrementally and there is experimentation with new procedures.

I think if the same pattern were followed in subjecting tax expenditures to greater controls under the budget process, people would gradually become more familiar and more comfortable with additional controls.

Controlling Tax Expenditures Through the Budget Process

I. POSSIBLE GOALS

A. Fiscal policy—increase or reduce overall revenues.

B. Tax policy—improve equity, efficiency, and simplicity.

C. Budget policy—change allocation of resources or budget priorities.

II. TAX EXPENDITURE CONTROL OPTIONS

A. Current floor on revenues sufficient to achieve fiscal policy goals.

B. Separate ceiling on tax expenditures would serve tax policy goals somewhat better than existing overall revenue floor—$327 billion vs. $667 billion.

C. Budget policy goals require breakdowns of tax expenditures by purpose (budget functional categories) and new procedures to force trade-offs—spending committees usually must be involved.

1. Reconciliation.—Joint instruction to tax and spending committees, leaving it to committees to decide mix between tax expenditure and direct spending reductions

2. Referral of new or increased tax expenditures.—All such legislation could be referred for review to spending committees with jurisdiction over analogous programs—spending committee recommendations could be merely advisory, or could have more direct consequences (reduction in spending allocations if increased tax expenditure were approved, for example)

3. Recommendations by spending committees.—Spending committees could recommend to tax committees that certain tax expenditures be reduced or increased to complement or offset spending changes

III. LESSONS FROM CREDIT BUDGETING

Move gradually and incrementally, experiment with new procedures, focus on ad hoc opportunities for trade-offs.

TEN LARGEST TAX EXPENDITURES FOR INDIVIDUALS

[Fiscal years, in millions of dollars]

Rank	Tax expenditures	1983	1984	1985	1986	1987	1988
1	Net exclusion of pension contributions and earnings: Employer plans and plans for self-employed.	50,765	57,610	67,435	79,465	93,570	110,255
2	Deductibility of mortgage interest on owner-occupied homes.	25,065	27,945	30,130	32,785	35,305	37,950
3	Exclusion of Social Security benefits	21,140	22,210	23,860	25,750	27,745	29,895
4	Deductibility of nonbusiness state and local government taxes other than owner-occupied homes.	20,060	21,770	26,605	29,970	34,125	39,010
5	Capital gains	19,625	18,635	19,845	21,245	22,730	24,320
6	Exclusion of employer contributions for medical insurance premiums and medical care.	18,645	21,300	24,280	27,580	31,555	35,975
7	Deductibility of property tax on owner-occupied homes.	8,765	9,535	10,480	11,710	13,215	14,980
8	Deductibility of charitable contributions	8,285	8,250	9,670	12,235	11,010	10,210
9	Deductibility of nonmortgage interest in excess of investment income.	7,735	8,160	8,815	9,590	10,550	11,645
10	Exclusion of interest on life insurance savings	4,805	5,170	5,805	6,640	7,590	8,675

TEN LARGEST TAX EXPENDITURES FOR CORPORATIONS

[Fiscal years, in millions of dollars]

Rank	Tax expenditures	1983	1984	1985	1986	1987	1988
1	Investment Credit	11,765	13,430	16,965	20,780	22,380	23,375
2	Accelerated depreciation on equipment	11,255	17,750	20,495	18,730	15,150	14,415
3	Exclusion of interest on general purpose state and local government debt.	6,985	7,850	8,695	9,530	10,370	11,280
4	Reduced rates on the first $100,000 of corporate income.	5,690	6,525	7,025	8,060	8,765	9,090
5	Exclusion of interest on state and local government industrial development bonds.	2,355	2,790	3,265	3,875	4,385	4,615
6	Expensing of research and development expenditures	2,165	2,370	2,360	2,425	2,485	2,535
7	Capital gains	2,115	2,545	2,640	2,895	3,145	3,400
8	Deferral of income of Domestic International Sales Corporations (DISC).	1,390	1,185	1,075	1,050	1,075	1,110
9	Tax credit for corporations receiving income from doing business in U.S. possessions.	1,350	1,075	1,135	1,240	1,375	1,525
10	Tax credit for ESOPs	1,250	1,375	1,875	2,235	2,330	950

Table 1.—Tax Expenditure Estimates by Function [1]

[Fiscal years, in millions of dollars]

Function	Corporations						Individuals					
	1983	1984	1985	1986	1987	1988	1983	1984	1985	1986	1987	1988
National defense:												
Exclusion of benefits and allowances to Armed Forces personnel							2,205	2,250	2,380	2,520	2,670	2,820
Exclusion of military disability pensions							165	160	165	175	185	195
International affairs:												
Exclusion of income earned abroad by United States citizens							1,285	1,300	1,365	1,435	1,505	1,580
Deferral of income of domestic international sales corporations (DISC)	1,390	1,185	1,075	1,050	1,075	1,110						
Deferral of income of controlled foreign corporations	430	345	375	390	420	455						
General science, space, and technology:												
Expensing of research and development expenditures	2,165	2,370	2,360	2,425	2,485	2,535	105	120	125	125	130	135
Credit for increasing research activities	615	650	660	305	65	25	30	35	40	30	5	[2]
Suspension of regulations relating to allocation under section 861 of research and experimental expenditures	120	60	[2]									
Energy:												
Expensing of exploration and development costs:												
Oil and gas	660	440	590	740	835	895	875	800	815	855	900	950
Other fuels	30	30	35	35	40	40						

Excess of percentage over cost depletion:												
Oil and gas	375	430	445	465	510	555	1,425	1,275	1,305	1,410	1,505	1,625
Other fuels	325	350	355	380	410	440	15	15	15	15	15	20
Capital gains treatment of royalties from coal	35	40	40	45	50	55	140	145	160	175	190	205
Alternative fuel production credit	5	20	25	40	105	285	.....	.....	.....	.....	.....	.....
Alcohol fuel credit [3]	5	5	5	5	5	5	.....	.....	.....	.....	.....	.....
Exclusion of interest on State and local government industrial development bonds for energy production facilities	15	20	30	40	55	70	5	10	15	20	20	25
Residential energy credits:												
Supply incentives	.....	.....	.....	.....	.....	.....	340	450	610	700	70	.....
Conservation incentives	.....	.....	.....	.....	.....	.....	330	305	305	260	.....	.....
Alternative, conservation and new technology credits:												
Supply incentives	215	200	175	100	35	20	10	10	5	.....	.....	.....
Conservation incentives	135	35	15	5	(2)	.....	(2)	(2)	(2)	.....	.....	.....
Energy credit for intercity buses	5	5	5	(2)	.....	.....	.....	.....	.....	.....	.....	.....
Natural resources and environment:												
Expensing of exploration and development costs, nonfuel minerals	55	60	65	75	80	85	(2)	(2)	(2)	(2)	(2)	(2)
Excess of percentage over cost depletion, nonfuel materials	270	295	310	335	355	380	10	10	15	15	15	15
Capital gains treatment of certain timber income	275	390	430	500	575	595	95	125	150	175	205	230
Investment credit and seven-year amortization for reforestation expenditures	(2)	(2)	(2)	(2)	(2)	(2)	10	10	10	10	10	10
Capital gains treatment of iron ore	5	5	5	5	5	10	5	5	5	5	5	10
Exclusion of interest on State and local government pollution control bonds	900	1,025	1,140	1,255	1,375	1,510	440	505	565	620	680	745
Exclusion of payments in aid of construction of water, sewage, gas, and electric utilities	45	75	75	80	75	70	.....	.....	.....	.....	.....	.....

Table 1.—Tax Expenditure Estimates by Function [1]—Continued

[Fiscal years, in millions of dollars]

Function	Corporations						Individuals					
	1983	1984	1985	1986	1987	1988	1983	1984	1985	1986	1987	1988
Tax incentives for preservation of historic structures	65	90	110	140	185	240	130	165	215	275	355	460
Agriculture:												
Expensing of certain capital outlays	85	90	95	100	100	105	475	495	510	530	545	565
Capital gains treatment of certain income	30	35	35	40	40	45	455	475	500	530	545	565
Deductibility of patronage dividends and certain other items of cooperatives	950	980	1,010	1,040	1,075	1,110	−390	−400	−410	−425	−435	−450
Exclusion of certain cost-sharing payments							50	45	40	30	25	25
Commerce and housing:												
Dividend exclusion							445	435	440	450	460	480
Reinvestment of dividends in stock of public utilities							365	415	450	230		
Net interest exclusion									1,110	3,095	3,480	3,945
Exclusion of interest on State and local government industrial development bonds	2,355	2,790	3,265	3,875	4,385	4,615	570	675	800	985	1,180	1,310
Exclusion of interest on certain savings certificates							2,355	550				
Exemption of credit union income	170	185	200	220	240	260						
Exclusion of interest on life insurance savings							4,805	5,170	5,805	6,640	7,590	8,675
Excess bad debt reserves of financial institutions	335	575	785	930	1,060	1,030						

Deductibility of nonmortgage interest in excess of investment income							7,735	8,160	8,815	9,590	10,550	11,645
Deductibility of mortgage interest on owner-occupied homes							25,065	27,945	30,130	32,785	35,305	37,950
Deductibility of property tax on owner-occupied homes							8,765	9,535	10,480	11,710	13,215	14,980
Exclusion of interest on State and local government housing bonds for owner-occupied housing	1,060	1,190	1,190	1,145	1,105	1,070	450	485	475	445	415	385
Exclusion of interest on State and local government housing bonds for rental housing	585	735	880	1,035	1,185	1,345	285	355	430	510	585	665
Deferral of capital gains on home sales							3,770	4,895	5,625	6,000	6,480	7,030
Exclusion of capital gains on home sales for persons age 55 and over							1,255	1,630	1,875	2,000	2,160	2,345
Depreciation on rental housing in excess of straightline	120	155	165	170	180	185	575	665	720	760	795	820
Depreciation on buildings other than rental housing in excess of straightline	175	200	215	240	265	295	150	165	185	210	230	250
Accelerated depreciation on equipment other than leased property	9,510	15,865	18,860	17,445	14,110	13,890	1,015	2,460	2,845	2,825	2,255	1,915
Safe harbor leasing:												
Accelerated depreciation and deferral	1,745	1,885	1,635	1,285	1,040	525						
Investment credit	1,625	915	705	710	515	280						
Amortization of business start-up costs	15	20	25	30	35	40	105	160	230	285	315	355
Capital gains other than agriculture, timber, iron ore and coal	1,770	2,075	2,130	2,305	2,475	2,695	14,955	14,320	15,365	16,440	17,590	18,820
Capital gains at death							3,975	3,565	3,665	3,920	4,195	4,490
Reduced rates on the first $100,000 of corporate income	5,690	6,525	7,025	8,060	8,765	9,090						

Table 1.—Tax Expenditure Estimates by Function [1]—Continued

[Fiscal years, in millions of dollars]

Function	Corporations						Individuals					
	1983	1984	1985	1986	1987	1988	1983	1984	1985	1986	1987	1988
Investment credit, other than ESOPs, rehabilitation of structures, reforestation and leasing	9,965	12,315	16,075	19,870	21,650	22,860	3,220	3,350	3,615	3,945	4,245	4,595
Transportation:												
Amortization of motor carrier operating rights	70	70	50	15	5	(2)	5	5	5	5	(2)	.....
Deferral of tax on shipping companies	30	40	40	45	45	45	.....	.....	.....	.....	.....	.....
Exclusion of interest on State and local government mass transit bonds	45	65	75	75	65	75	15	25	20	15	10	20
Community and regional development:												
Five-year amortization for housing rehabilitation	20	25	25	25	25	25	30	35	35	35	35	35
Investment credit for rehabilitation of structures other than historic structures	175	200	185	195	215	235	160	165	160	165	180	200
Education, training, employment, and social services:												
Exclusion of scholarship and fellowship income	.....	.....	.....	.....	.....	.....	415	375	395	410	435	460
Exclusion of interest on State and local government student loan bonds	150	200	260	320	390	460	70	100	125	155	190	225
Parental personal exemption for students age 19 or over	.....	.....	.....	.....	.....	.....	995	950	885	895	905	920
Exclusion of employee meals and lodging (other than military)	.....	.....	.....	.....	.....	.....	680	725	795	870	945	1,030

Employer educational assistance							40	20				
Exclusion of contributions to prepaid legal services plans							25	25	10			
Exclusion for employer provided child care							10	25	55	85	120	155
Tax credit for ESOPs	1,250	1,375	1,875	2,235	2,330	950						
Deductibility of charitable contributions (education)	280	345	360	415	480	525	495	495	580	735	660	615
Deductibility of charitable contributions, other than education and health	350	425	445	515	590	645	6,795	6,765	7,930	10,030	9,030	8,370
Credit for child and dependent care expenses							1,520	1,765	2,190	2,465	2,765	3,160
Targeted jobs credit	215	395	355	155	30	5	75	70	30	(2)		
Deduction for two-earner married couples							3,555	5,835	6,350	6,935	7,600	8,460
Deduction for adoption expenses							10	10	10	10	15	15
Health:												
Exclusion of employer contributions for medical insurance premiums and medical care							18,645	21,300	24,280	27,680	31,555	35,975
Deductibility of medical expenses							3,105	2,630	3,070	3,370	3,740	4,165
Exclusion of interest on State and local government hospital bonds	795	960	1,115	1,265	1,420	1,580	385	470	545	625	700	780
Deductibility of charitable contributions (health)	175	215	225	255	295	325	995	990	1,160	1,470	1,320	1,225
Tax credit for orphan drug research	10	15	15	10								
Income security:												
Exclusion of social security benefits:												
Disability insurance benefits							1,690	1,660	1,695	1,755	1,840	1,930
OASI benefits for retired workers							15,685	16,680	18,070	19,640	21,275	23,045
Benefits for dependents and survivors							3,765	3,870	4,095	4,355	4,630	4,920
Exclusion of railroad retirement system benefits							780	765	765	745	755	775

Table 1.—Tax Expenditure Estimates by Function [1]—Continued

[Fiscal years, in millions of dollars]

Function	Corporations						Individuals					
	1983	1984	1985	1986	1987	1988	1983	1984	1985	1986	1987	1988
Exclusion of workmen's compensation benefits							1,870	2,090	2,395	2,755	3,170	3,645
Exclusion of special benefits for disabled coal miners							170	165	165	160	160	165
Exclusion of untaxed unemployment insurance benefits							3,260	3,020	2,585	2,405	2,265	2,120
Exclusion of public assistance benefits							430	430	440	455	470	485
Exclusion of disability pay							145	135	130	130	130	130
Net exclusion of pension contributions and earnings:												
Employer plans							49,700	56,560	66,365	78,310	92,405	109,035
Plans for self-employed							1,065	1,050	1,070	1,115	1,165	1,220
Individual retirement plans							2,695	3,180	3,705	4,240	4,745	5,360
Exclusion of other employee benefits:												
Premiums on group term life insurance							2,100	2,250	2,465	2,715	2,985	3,285
Premiums on accident and disability insurance							115	120	125	130	135	140
Additional exemption for the blind							35	35	35	35	35	35
Additional exemption for elderly							2,365	2,410	2,570	2,720	2,410	3,130
Tax credit for the elderly							135	135	135	135	135	135
Deductibility of casualty and theft losses							575	380	470	520	590	670
Earned income credit [4]							385	330	290	215	155	210
Veterans benefits and services:												
Exclusion of veterans disability compensation							1,820	1,830	1,950	1,995	2,070	2,145

Exclusion of veterans pensions							310	290	280	275	275	275
Exclusion of GI bill benefits							130	130	115	100	90	65
General government:												
Credits and deductions for political contributions							190	200	220	220	230	240
General purpose fiscal assistance:												
Exclusion of interest on general purpose State and local government debt	6,985	7,850	8,695	9,530	10,370	11,280	3,435	3,870	4,295	4,715	5,130	5,580
Deductibility of nonbusiness State and local government taxes other than on owner-occupied homes							20,060	21,770	26,605	29,970	34,125	39,010
Tax credit for corporations receiving income from doing business in U.S. possessions	1,350	1,075	1,135	1,240	1,375	1,525						
Interest:												
Deferral of interest on savings bonds							50	160	225	290	355	410

[1] All estimates are based on the tax law enacted through the 97th Congress.

[2] Less than $2,500,000. All estimates have been rounded to the nearest $5 million.

[3] In addition, the exemption from the excise tax for alcohol fuels results in a reduction in excise tax receipts, net of the income tax effect, of approximately $40 million for 1983, $60 million for 1984, $80 million for 1985, $95 million for 1986, and $110 million for 1987 and 1988.

[4] The figures in the table indicate the effect of the earned income credit on receipts. The increase in outlays is: $1,197 million in 1983, $1,119 million in 1984, $1,032 million in 1985, $1,004 million in 1986, $968 million in 1987, and $910 million in 1988.

SUM OF THE EXPENDITURE ITEMS BY TYPE OF TAXPAYER, FISCAL YEARS 1983–88

[In millions of dollars]

Fiscal year	Corporations and individuals	Corporations	Individuals
1983	295,280	56,225	239,055
1984	327,455	67,915	259,540
1985	369,330	77,475	291,855
1986	411,575	83,210	328,365
1987	446,725	84,600	362,125
1988	490,850	86,495	404,355

NOTE.—These totals represent the mathematical sum of the estimated fiscal year effect of each of the tax expenditure items included in the table. The limitations on the use of the totals are explained in the text.

Source: Staffs of the Joint Committee on Taxation and the Treasury Department.

Table 2.—Distribution of Selected Items of Tax Expenditures Under Individual Income Tax, By Expanded Income Class [1]

[Amounts in millions of dollars; returns in thousands]

Expanded income class (thousands) [2]	Age exemption		Blind exemption		Dividend exclusion	
	Returns	Amount	Returns	Amount	Returns	Amount
Below $5	390	32			243	3
$5 to $10	2,418	342	49	6	919	14
$10 to $15	1,718	329	22	3	1,157	22
$15 to $20	966	227	16	3	939	22
$20 to $30	1,175	351	21	4	1,914	60
$30 to $50	772	305	31	8	2,736	119
$50 to $100	325	186	3	1	1,485	91
$100 to $200	98	68	1	(*)	380	28
$200 and over	30	22	(*)	(*)	95	7
Total	7,893	1,863	143	26	9,868	365

See footnotes at end of table.

REVENUE PROJECTIONS BASE ON JUNE 7, 1983 JOINT STAFF FORECAST

Source	1982	1983	1984	1985	1986	1987	1988
Individual income	298.1	287.4	295.5	328.4	353.7	381.1	409.2
Corporate income	49.2	37	63.5	68.3	74.5	82.9	87.2
Social insurance	201.1	212.7	239.4	268	294.6	315.7	349.2
Windfall profit[1]	18.9	13.2	10.5	10.8	10.7	10.6	10.3
Other excises	17.4	23.2	28.7	30	26.6	26.5	27.4
Estate and gift	8	6.1	5.9	5.6	5	4.6	4.3
Customs duties	8.9	8.9	9.7	10.1	10.4	10.7	10.9
Miscellaneous	16.2	15.9	14.4	14.3	14.3	14.1	14.1
Total Revenues	617.8	604.4	667.6	735.5	789.8	846.2	912.6

[1] Source of Oil Price Assumptions: Joint Staff (6/7/83).

Note.—These estimates assume extension of Airport & Airway taxes beyond 1987. Revenue estimates include April technical update, Public Law 98–4, and Public Law 98–21.

Source: Congressional Budget Office Tax Analysis Division.

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